



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO DES-B

SEP 28 2004

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act (FMFIA) of 1982

As Vice Director of the Defense Logistics Agency (DLA), I recognize the importance of management controls in the Agency. I have taken the necessary steps to ensure a conscientious and thorough evaluation of management controls for DLA. The results indicate that DLA's system of internal accounting and administrative control in effect during the Fiscal Year (FY) that ended September 30, 2004, taken as a whole, provides reasonable assurance with the exception of the material weaknesses noted that the management controls are in place and effectively operating. Furthermore, the objectives of the FMFIA were achieved within the limits described in Tab A. Tab A also provides information on how DLA conducted the evaluation and cites any deficiencies in the process.

The evaluation did identify material weaknesses. At Tab B-1 is a list of corrected material weaknesses and weaknesses that still require corrective action. At Tab B-2 is an individual narrative for each uncorrected material weakness listed at Tab B-1. At Tab B-4 is a summary of the significant accomplishments and actions taken to improve DLA's management controls during the past year.

MARY L. SAUNDERS
Major General, USAF
Vice Director

Attachments

cc: DUSD (L&MR)



TABLE OF CONTENTS

Title	Page
Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted (TAB A)	A-1
Uncorrected and Corrected Material Weaknesses (TAB B-1)	B-1-1
Uncorrected Material Weaknesses Status of Corrective Actions (TAB B-2)	B-2-1
Narratives for All Material Weaknesses Corrected During Fiscal Year 2003 (TAB B-3)	B-3-1
Management Control Program and Related Accomplishments (TAB B-4)	B-4-1

TAB A**DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE
AND HOW THE EVALUATION WAS CONDUCTED**

The Defense Logistics Agency (DLA) senior management evaluated the system of internal accounting and administrative control in effect during the Fiscal Year (FY) ending September 30, 2004, in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by Department of Defense (DoD) Directive 5010.38, "Management Control (MC) Program," dated August 26, 1996; and DoD Instruction 5010.40, "Management Control Plan (MCP) Procedures," dated August 28, 1996. The OMB guidelines were issued in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act (FMFIA) of 1982." Included is an evaluation of whether the system of internal accounting and administrative control for DLA is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal accounting and administrative control of DLA are to provide reasonable assurance that:

- The obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to Agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports to maintain accountability over the assets.

The evaluation of management controls extend to every responsibility and activity undertaken by DLA and is applicable to financial, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of management controls should not exceed the benefits that are expected to be derived, and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding description.

DLA performed the evaluation in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of DLA in effect during the FY 04, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

The description of how DLA conducted the evaluation includes the following, as applicable:

1. Progress made institutionalizing the MCP:

- The DLA program is fully developed, and the DLA Headquarters (HQ DLA) Business Offices and Field Activities (FA) have continued to make progress in the expanded reporting of weaknesses and controls. Continued recognition of current process improvements to ensure existing internal controls remain in place or are being enhanced. Each directorate/major office has an MCP program monitor assigned to oversee the program. The program monitors are responsible for ensuring their directorate/major office follows the prescribed requirements and regulations as set forth in the DLA and OMB guidelines; provides assistance regarding the performance of objective assessments; and reports weaknesses and concerns arising from those assessments.
- DLA reviews risk areas annually for inclusion in the development of Management Control (MC) Objectives to be assessed for the FY. The core objectives are developed and included in the MCP for each directorate/FA. All assessments are reviewed and approved by senior management at the local level, then at the HQ DLA level.
- MCP performance standards are part of DLA's supervisory/managerial performance plans and include MCP responsibilities. The HQ DLA Internal Support Review (ISR) program requires updated status reports on weaknesses and concerns addressed by the MCP. Additionally, all weaknesses are now addressed in the DLA Business Plan with status updates each quarter of the FY.
- DLA Criminal Investigation Activity worked closely with other DLA Field Activities to ensure all objectives were evaluated and weaknesses identified before negative actions occurred.
- Progress within the DLA Financial Operations (J-8), Comptroller's Office included participation in identifying and resolving internal control deficiencies; development of DLA One Book chapters/procedures; development of Concept of Operations and agreements with customers and providers; and continued recognition of current process improvements to ensure existing internal controls remain in place or are enhanced. The J-8 reviewed current business practices and assessed management controls; conducted biweekly audit updates; and performed risk analysis as part of their evaluation.

2. Improvements to program coverage:

- DLA management emphasizes the important role managers must play in safeguarding the integrity of the Agency by continually monitoring and establishing procedures to prevent or mitigate fraud, waste, abuse, or mismanagement in their respective areas of responsibility. Our vulnerability has increased due to the many changes in our work environment. However, increased awareness by our managers provides them with a ready response to these challenges.

- The DLA Intranet Web site for the MCP is continuously updated.
- DLA Distribution Depot commanders were given a management control checklist to assist them in completing the assessment process. A management control quarterly newsletter was developed and distributed throughout the Defense Distribution Center (DDC) and its depots in order to enhance program awareness.
- The Defense Supply Center Philadelphia (DSCP), “Management Control Review Guide” was updated in February 2004. The guide was revised for increased clarity and to incorporate DLA’s revised standard format for the assessment letters.
- In addition, DLA developed a MCP training course and presented it to managers at HQ DLA and various DLA sites during FY 04. Enrollees included both DLA and non-DLA employees from other Federal agencies. Plans for further training throughout DLA include a videotape of the training course, a video teleconference (VTC) using data-streams, and an online Internet version via data-streams.

3. Problems encountered in implementing the MCP: N/A.

4. Other considerations affecting the MCP: N/A.

5. Any deviations from the process as outlined in the OMB Guidelines: N/A.

6. Any special concerns addressed in reports by the Inspector General (IG), DoD or Component audit, investigation, inspection, and/or internal review organizations regarding MCP progress, program needs, and/or problems:

- **Defense Contract Awards Reporting System (DCARS) Data Accuracy:**
FY 04 Status (Corrective Actions/Recommendations): Data inaccuracy in DCARS is mainly due to the lack of socioeconomic information. The Defense Supply Center Columbus (DSCC) Defense Internet Bids Boards System (DIBBS) does not collect information from vendors for each socioeconomic category. A partial solution to this problem is the implementation of Business Systems Modernization (BSM) Procurement Release 2.0. Only a small portion of national stock numbers will be under BSM at that point. Also, the recording of information on the BSM form, Form DD 350 (for awards over \$25,000), will not generate an automated update in DCARS, as it will in the future. The total solution for data accuracy is the DLA-wide implementation of BSM DIBBS. The corrective action of manual data entry will resume until the DLA-wide implementation of BSM DIBBS, thus assuring accurate reporting. The DSCC Small Business Office will continue to monitor data accuracy and report the status and progress of the resolution as part of the MCP reporting system.
- **Pricing of First-Time Buys (FTB):** This review was previously initiated in response to the findings and recommendations contained in the DLA report on special process Procurement Management Reviews (PMR) of hardware Inventory Control Points (ICP)

in June 2001. The recommendation stated that DSCR should ensure that appropriate policy, procedures, and oversight are implemented to eliminate the management concern associated with the pricing of FTBs.

Awareness will create the desired result of a measurable improvement in file documentation and coding for FTBs. Fifty-seven FTB files were reviewed. Approximately 95 percent of the files included an acceptable “price-reasonableness” code. Three files (5.26 percent) contained unacceptable “price-reasonableness” determinations. Two of the three unacceptable files were micro-purchases.

- **Defense Travel System (DTS):** DDC reports that DTS is still a concern. J-8 must ensure that DTS will interface timely and correctly with Defense Business Management System (DBMS) and that adequate controls exist to monitor their compliance and/or abuse.
- **Transportation Costs:** As a result of an audit conducted by the Defense Reutilization and Marketing Service (DRMS), Internal Review Office, a concern was identified that Transportation Management Offices could, inadvertently or otherwise, misuse DRMS’ funds or overcharge for transportation of Reutilization, Humanitarian Assistance Program, Demilitarization, Foreign Military Sales, Commercial Venture, and Recycling Control Program property.
- DRMS implemented oversight procedures for transportation charges that preclude the misuse of DRMS’ transportation funds or the overcharge for transportation. DRMS now has access to the Military Traffic Management Control, Army Materiel Command, and Power track billing systems. Monthly reports are downloaded and reviewed for accuracy. This allows DRMS to verify and correct all transportation charge discrepancies. Identified discrepancies are reconciled with the billing agency and then charged to the proper account. Misused transportation charges are no longer considered a special concern by DRMS.
- **De-obligation for Backlog of Accounts Payable:** A review of DRMS open accounts payable entries was completed in FY 03. DRMS reversed or cancelled out a significant number of backlogged and unsupported entries in the system. DRMS hired a financial analyst in FY 03 to oversee accounts payable and other related accounting procedures and entries. New procedures have been implemented to ensure payables are reviewed monthly and validated triannually. Backlogged accounts payable entries are no longer considered a special concern for DRMS.

7. Methods, mechanisms, or techniques employed in the discovery or execution phases of the program. The following are examples of methods, mechanisms, or techniques:

a. MCP Weakness Tracking System:

- Each field activity and business office tracks their own weaknesses and corrective action schedules and reports on such biannually. DLA will utilize the tool developed and used by the Office of the Secretary of Defense (OSD), Comptroller Office.

- Material weaknesses reported to DLA are now included in the Enterprise Business Plan and reported on quarterly to HQ DLA.

b. Component IG or Audit Service Findings: N/A.

c. Reports of Component Internal Reviews and Inspections:

- Report Plant, Property and Equipment (PP&E) deficiencies resulting from the FY 02 final assessment by Deloitte & Touche for the DLA Audit Committee. Results of this audit are reflected in a weakness reported in Tab B.
- Follow-up Review of the Fleet Card Program report, dated April 6, 2004, Project No. 04-03.

d. IG, DoD Reports and Reviews:

No audit findings resulted in material weaknesses this FY. The Defense Logistics Information Service (DLIS) is assisting HQ DLA in the Defense Inactive Item Program, DoD IG audit report D2001LD-0128.002. This audit is ongoing at HQ DLA.

e. MCP Training:

- The DLA MCP program manager, along with the Defense Supply Center Columbus (DSCC) MCP program manager, further refined and taught the DLA-developed MCP course at several sites throughout DLA for both DLA and non-DLA participants. Future training will be presented via VTC and videotaped sessions. Topics included the statutory and regulatory requirements of DLA's Management Control Program, the underlying philosophy of internal management controls, the major elements of the DLA assessment/reporting process, and the basic responsibilities of key players in that process. The student workbooks and the instructor's manual, along with DoD and OMB guidance, are available on the DLA MCP Homepage. Feedback from participants after the training was virtually unanimous in its enthusiasm for the class content and quality of instruction.
- The DLA MCP program manager conducted a workshop for all DLA Business Office and Field Activity MCP program managers. The purpose was to provide training on how to perform management control functions and the latest DoD and DLA guidance to all program managers.
- The DSCP program manager conducted a special session with the DSCP control objective managers to provide detailed local guidance concerning requirements for the management control reviews and assessment letters.
- All field-level office MCP program managers provided assistance and individualized instruction throughout the year as needed by new managers, control objective managers, and MCP program coordinators.

f. MCP Performance Standards:

In a memorandum to all DLA components, Performance Standards and (Internal) Management Control (MC), dated October 2, 1998, DLA directed all activities to include MCs as a performance standard in each manager's performance plan. In January 2003, DLA issued a new Supervisory/Managerial Performance Plan that included the following as a competency, "Ensures that an internal control system for efficient and effective management of programs, security policies, and daily operations is in place to safeguard against waste, fraud, unauthorized use, or misappropriation to ensure that revenues and expenditures applicable to DLA operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial statistical reports and to ensure that proper accountability is maintained." The DLA MCP performance standards are in compliance with the General Accountability Office (GAO) Internal Control Management and Evaluation Tool.

g. GAO Reports and Reviews:

- **GAO-04-615, DoD Business Systems Modernization, April 2004:**

The GAO completed an audit of the management oversight and accountability of DoD's effort to modernize its business systems. GAO selected logistics systems modernization efforts as case studies to determine if they would help resolve DoD financial and inventory management problems. The focus of the audit was towards requirements management and testing. The BSM program has continued to mature significantly since the audit was conducted and has significantly strengthened its requirements management and testing processes and management oversight since program inception.

- **GAO-04-23, Information Security: Improvements Needed at the DLA's Defense Automatic Addressing System Center (DAASC), January 2004:**

The DAASC audit occurred from December 2002 until July 2003. DAASC was used as a case study for a detailed controls review. The audit was conducted to determine DAASC's compliance and implementation of the DLA Information Assurance (IA) policy. A material weakness, reflected in Tab B, was reported regarding system intrusion.

h. Review of OSD Functional Proponent Proposals (e.g. systemic weaknesses):

- Two material weaknesses are categorized in the systemic weakness category of Information Assurance, "Valuation of Inventories in Defense Agency Standard Automated Materiel Management System (SAMMS)" and "Information System Intrusion."
- One material weakness is categorized in the systemic weakness category of Valuation of Plant, Property, and Equipment on Financial Reports, "Inaccurate Reporting of PP&E Accounts on Financial Statements." The following weaknesses are detailed in Tab B of this report:
 - Navy and DLA Retail Inventory System Interfaces.
 - Reduce DLA Accounts Receivable and Payable to an Acceptable Balance.

- Automated Systems Used to Prepare the DLA Defense Working Capital Fund (DWCF) Financial Statements.
- Internal Controls and Compliance with Laws and Regulations for the DWCF Financial Statements.

i. Information Technology Initiatives:

- DLA's BSM Fuels Automated System (FAS), and Enterprise Data Center (EDC) reengineering efforts support both DoD and DLA strategic objectives. BSM and FAS are Acquisition Category IA programs with the EDC program defined as an acquisition of services program. The Office of the Assistant Secretary of Defense, Network and Information Integration, retains Milestone Decision Authority over the BSM, FAS, and EDC programs. Each program maintains an Acquisition Program Baseline, which baselines the Programs' cost and schedule objective and threshold. The Transformation Executive Board, Component Acquisition Executive, Chief Information Officer (CIO), and Program Executive Officer exercise oversight of the BSM, FAS, and EDC programs within DLA.
- DLA is in the process of implementing an Agency-wide Asset Management program. Supporting software and hardware for this program will allow central control of asset inventory, placement, and capacity management. Additionally, the Asset Management program will provide visibility of all network devices and associated software applications. The program should be in place by the end of 4TH QTR, FY 04.
- DLA Information Operations (J-6) has implemented an online repository for the identification and custody control of all non-consumable types of Automated Data Processing (ADP) devices, including: laptops and Blackberry devices. The system requires all ADP equipment to be bar coded and registered in an online data repository for inventory tracking purposes.
- DLA has implemented an IA program using an Enterprise approach that is based on a defense-in-depth strategy. This approach is focused on achieving the DLA Strategic Plan objective to create and maintain a secure operating and data environment for DLA systems, networks, and Web sites. The objective can be achieved by attaining 90 percent compliance with the DoD Instruction 8500.2, "Information Assurance Operations," February 2003, by the end of 4TH QTR, FY 05.
- DLA's Enterprise-wide IA efforts are further guided by the requirements of maturity level five of the CIO Council's Federal IT Security Assessment Framework. A key component in DLA's defense-in-depth strategy is an enterprise firewall and intrusion detection management infrastructure that has been implemented using Agency standard technology products and services. A centralized firewall management server and extensive intrusion detection system configurations provide enhanced security for the DLA enterprise telecommunications network.

- Corporate IA product ordering agreements are in place. Corporate plans for enclave boundary protection, Public Key Infrastructure (PKI), computer network defense, access controls, IA architecture, IA training, and Certification and Accreditation (C&A) that meet DoD and industry standard best practices, are being implemented.
- DLA deployed PKI technology Agency-wide using Common Access Cards, card readers, and middleware to ensure adequate protection for sensitive data. The application of policy and associated procedures has been strengthened by access controls for DLA systems, networks, and Web sites to ensure that access is granted only on a need-to-know basis for both Local Area Network (LAN) and wireless connections.
- DLA is implementing the Enterprise Mission Assurance Support System (EMASS), an Assistant Secretary of Defense, Networks and Information Integration sponsored initiative. EMASS serves as the centerpiece of an ongoing DoD effort to develop and implement an array of technical initiatives that reengineer and automate a broad range of IA functions. EMASS delivers a comprehensive enterprise-wide solution for IA management support in a series of phased deployments. It consists of an integrated suite of Government-owned, Commercial Off the Shelf (COTS)-based relational database management systems, and an associated web interface that automates several C&A processes. Additionally, EMASS may automate other core IA processes to include: vulnerability management, ports and protocols management, IA personnel and resource management, incident reporting, continuity planning and contingency management, and IA architecture and asset management.
- All DLA systems, networks, and Web sites have been evaluated for C&A and scheduled for annual revalidation testing. The DLA Computer Emergency Response Team (CERT) identified several system, network, and Web site vulnerabilities and implemented remedial actions to mitigate or eliminate risks to DLA business operations. DLA has effectively complied with vulnerability notifications by obtaining and installing system patches, making procedural changes, and reporting IA Vulnerability Alert compliance within established time standards.
- J-6 routinely applies various management controls to monitor obligations and costs throughout each FY. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Revenues and expenditures are properly recorded and accounted for through various automated accounting, financial, and statistical reports which maintain accountability over the Agency's assets. The business areas conduct internal reviews and meetings, monthly and quarterly, to account for all elements of cost.
- All J-6 personnel who certify invoices for payment have completed the Contracting Officer's Representative/Contracting Officer's Technical Representative (COR/COTR) Training Course. The controls in place are adequate to safeguard the performance of this function.

- DLIS is the operations manager for the Electronic Mall (EMALL). EMALL assessments are performed using In-Process-Reviews (IPR) with the Corporate Board through weekly telephone conference calls with other DLA team members and contractor staff, and valid functional requirements through system acceptance testing. DLIS has program responsibility for EMALL. EMALL is on schedule and operating within budget. Customer requirements are being identified and brought into the program on a timely basis.
- The purpose of the Cataloging Re-engineering System (CRS) MCP objective is to ensure development is on schedule and within budget, while providing reengineered processes for DoD cataloging. The following information was reviewed: system development documents, milestone schedule, Economic Analysis, Program Objective Memorandum data, and CRS IPRs that were held with Electronic Data Systems (EDS). The primary control is the DLA Program Review Board chaired by the Program Executive Office. The board includes representation from Logistics Operations (J-3), J-6 and J-8. CRS was deployed throughout DLIS in February 2004. The application was moved to the HP 8400 in February 2004 also. All fixes to CRS are being made under the maintenance contract. Emergency fixes are being fast tracked and implemented as needed. Speed of the application is being monitored and tuning done as more users are added to the system. There are no indications of any material weakness and no issues that warrant elevation to HQ DLA. Recommend that this be considered complete for FY 04 and deleted from the Management Control Plan for FY 05.
- Enhancements to Defense Energy Supply Expert System (DESEX) are a part of the "Virtual" DESEX project. These enhancements include improved voice recognition, a centralized architecture, a single call in number and individual user accountability. The MCs in place include: IPRs with the Director of Logistics Initiatives, financial planning, execution of tracking documents and program manager progress reports (oral and e-mail). There are no indications of any material weaknesses.
- DDC provided support for all end-user access and access privileges networks, servers, the Distribution Standard System (DSS), the Distribution Planning and Management System (DPMS), BSM, and other applications. DDC also supported the DDC enclave LAN border protection (firewalls), DeMilitarized Zone, intrusion detection, virtual private networks, DDC Defense Message System (DMS), and DDC Secret Internet Protocol Router Network.
- DDC provided information assurance policy and guidance, information auditing, PKI certificate distribution and management, and support for the Defense Information Technology C&A Process and DDC CERT software patch distribution. DDC also provided firewall support and advice to the DLA Global E-mail Project. DDC is performing a pilot test for classified connectivity over the unclassified network using National Security Agency approved, encryption devices.

- DLA and DDC coordinated and migrated all DMS responsibilities to DDC. DDC continues deploying Secure Internet Protocol Router Network connectivity to each of its distribution depots in the Continental United States (CONUS) and Outside of the Continental United States (OCONUS).

Net Landed Cost (NLC):

- NLC Processing has been in operation for three years. Customer billing is based on a basic rate for receipts and various type issues, weight bands, and special handling services. The NLC goal is to provide proper pricing and visibility of charges on a monthly Compact Disk (CD) to distribute to chain customers. The CD will help them make informed decisions on distribution matters.
- NLC storage was implemented in FY 03. Customers are billed based on item cube by the categories of covered, open, and specialized. The NLC storage implementation will continue, the DDC goal, to provide customers with greater visibility of their distribution on a monthly CD.
- Over Ocean Transportation is included for FY 04. Billing is based on the requisition of items being transported OCONUS. Data is gathered systematically via United States Transportation Command (TRANSCOM) billing data, Power Track, and DSS. At this time, summary and detail line item data are provided to the customers via spreadsheet, continuing the NLC goal to provide visibility to customers of their distribution costs.
- Initiatives for FY 05 include: First Destination Billing, web access to the above information.

Performance Management Initiative:

- Performance Management software will allow DRMS to have a more proactive approach to dealing with performance data. Software technology will aid in streamlining management processes. The technology will better depict cause and effect relationships between measures, provide DRMS with the ability to auto-extract live real time data, provide live real time briefing capabilities, and ultimately, provide DRMS with the capability to visually observe the overall health of the organization on a daily basis, minimizing potential areas of operational risk. Initiative results are not yet realized.
- Automated security patch deployment and management provides a tightening of firewall rules and policy.

j. MCP References in Directives, Regulations, and other Guidance:

Program references have been and will continue to be incorporated into directives, regulations, and other published guidance.

Guidance Referenced:

- OMB Circular A-123 (Revised), Management Accountability and Control.
- DoD MCP Directive 5010.38.

- DoD MCP Instruction 5010.40.
- DLA One Book Chapter, which superceded DLA regulations DLAD 5010.4, DLA MCP Directive and DLA Instruction 5010.4, DLA MCP Instruction.
- Federal Managers' Financial Integrity Act of 1982.
- DLA FY 04 Guidance.
- DLA developed Training Guide.
- Policy for the use of MCP associated with Installation Real Property Management (Supplement to Army Regulation PAM 405-45), Chief Financial Officer's Act of 1990, Defense Property Accountability System (DPAS) – Integrated Facilities System Interface Cookbook, Interim Change Package 12-01, dated December 1, 1999.
- Local guidance at field activities.

k. Congressional Reviews and Hearings:

- DLA provided advance notification and documentation related to the Thorium Nitrate Environmental Assessment (EA) and Findings of No Significant Impact (FONSI) to Indiana, Maryland, and Nevada congressional delegations, as well as several Senate Armed Services Committee and House Armed Services Committee Members. Telephonic notifications were provided on October 21, 2003, and copies of the EA and FONSI were delivered to Capitol Hill offices on October 22, 2003. Governors of each state received advance copies of the EA and FONSI on October 23, 2003.
- DLA provided advance notification and documentation related to the Mercury Management Final Environmental Impact Statement (FEIS) to Indiana, New Jersey, Nevada, New York, Ohio, Tennessee and Utah, as well as several Senate Armed Services Committee and House Armed Service Committee members. Telephonic notifications were provided on March 17, 2004. Copies of the FEIS were delivered to Capitol Hill offices on March 18, 2004. Governors of each state also received copies of the FEIS on March 19, 2004.
- DLA provided documentation related to the Record of Decision (ROD) for the Mercury Management FEIS to Indiana, New Jersey, Nevada, New York, Ohio, Tennessee, and Utah, as well as several Senate Armed Services Committee and House Armed Service Committee members. Copies of the ROD were delivered to Capitol Hill offices on April 29, 2004. Governors of each state also received copies of the ROD on April 29, 2004.
- The House Government Reform Subcommittee Hearing on DRMS Methods of Disposal for DoD Property, was held on October 7, 2003.
- A Briefing to Congressman Mike Rogers (R-AL-3) on Defense Distribution Depot Anniston, AL Storage Requirements was held on March 2, 2004.
- A meeting with Senate Finance Committee staffers was held on April 29, 2004.
- A meeting with Representative Saxton (R-NJ-3) staffers, regarding the Distribution Process, was held on July 21, 2004.

No adverse actions were taken.

l. Command or other subordinate organization “Letters of Assurance”:

All field activities and HQ DLA Business Offices submitted letters of assurance for inclusion in the DLA submission.

m. Productivity Statistics:

- Quarterly updates of performance metrics are reported in the ISR, the DLA Corporate Business Plan, local business plans at the corporate offices, and field activities throughout DLA.
- DLA recognized a need to allocate and engage the financial, personnel, and equipment resources necessary to support Operation IRAQI FREEDOM (OIF), and to reset forces for the long-term. “The New Normal” was a concerted effort to identify those resources and put them in place. J-3 conducted four quarterly Performance/Execution Reviews during the reporting period. No adverse actions were taken as a result of these reviews. Six Monthly Performance Reviews were held during the reporting period. DLA experienced a high level of demands mainly due to the OIF effort. DLA maintained an acceptable level of performance, despite “The New Normal,” because of the leaning forward efforts by the field activities and the daily monitoring of demands by J-3 staff.
- The DAASC service availability goal for all mission critical applications is 100 percent. The DAASC COTS outboard system management tool performs process, platform and network monitoring. Both DAASC processing sites are continually being monitored to provide early warnings and detection capability for key processes. The process owners, system administrators and Automated Information Systems developers have designed and implemented approximately 800 process monitoring rules and scripts to monitor processes, hardware platforms, and network components. These process monitoring rules and scripts automatically notify process owners and control monitoring personnel of potential problems. These controls help to prevent a simple process problem, equipment failure, or environmental problem from escalating to a major problem or disaster. Problem reports are monitored and tracked through closure. Resolution analysis is performed to reconcile issues and minimize reoccurrences.
- DAASC continues to migrate logistics capabilities and processes to the web. DAASC continues to add enhancements to existing capabilities to make them more robust and user friendly. Growth of the use of DAASC web-based capabilities continues at an exponential rate.
- DDC reviews related statistics of all depots to ensure performance meets or exceeds DLA goals. DDC initiated and maintains an active Review and Analysis (R&A) program that addresses and tracks the status of other distribution issues and projects. The management indicators are consistent with the Balanced Scorecard (BSC) and the DLA Strategic Plan.

- DRMS R&A discloses the performance of necessary DRMS operations or initiatives deemed important by DLA and DRMS. DRMS Statistical Quality Control database provides summary reports for either the Defense Reutilization and Marketing Office (DRMO) or overall DRMS. These reports highlight workload versus labor costs. The DRMS Compliance Assistance Management System measures DRMO compliance in multiple areas, highlighting potential problems, or elements of concern.
- At DSCC, there are: monthly and quarterly updates of core business statistics; Monthly Readiness Reviews to Command; monthly DSCC Command briefings of core performance and financial metrics (Corporate Performance Reviews); Monthly/Quarterly Performance Management Reviews to HQ DLA; BSC/DLA Executive Information System (EIS); quarterly briefings and data monthly to Command and HQ DLA; and Dashboard Metrics performance and financial metrics from corporate level to the individual level (most metrics are updated daily and are available to each DSCC associate via the Integrated Workstation Portal).
- Productivity statistics are the concern of all DSCR managers and are used as indicators of problem areas under periodic review. Where applicable, statistics are reviewed to ensure performance meets or exceeds DLA established goals.

Joint Reserve Force (J-9):

The Reservist billet fill rate is measured quarterly. Overall the 636 authorized billets are filled at 98 percent at the end of 3RD QTR, FY 04 against a goal of 95 percent by the end of FY 07. An average of 12 percent of the DLA Reserve Force has been on continuous active duty serving on DLA's Contingency Support Teams in Iraq, Kuwait, and Afghanistan.

n. Defense Regional Inter-service Support Studies:

DLA Defense Distribution Center (DDC):

The DDC centers into a significant number and dollar volume of support agreements both as the supplier and receiver of services. Reimbursement is assured via Military Interdepartmental Purchase Requests (MIPR). FY 04 status of Defense Regional Interservice Support Agreements (ISA) and Service Level Agreements (SLA) are as follows:

<u>ISA</u>	<u>Estimated Dollar Amount</u>
93 as Supplier	\$71,380,150.00
93 as Received	\$30,570,650.00

As Supplier: The DDC Depots provide distribution support to customers, from all branches of the service, through the ISAs. Distribution support includes such services as Preservation and Packaging, Demilitarization, Inventory, Processing and Painting

Wheeled and Tracked Vehicles, and Inter-Depot Movement. In addition, the Defense Distribution Depot Susquehanna, PA (DDSP), and the Defense Distribution Depot San Joaquin, CA (DDJC) are host activities providing base operations support to the tenants. Types of base operation support include: Fire Protection, Safety Support, Disaster Preparedness, Environmental Protection, Police Services, and more.

As Receiver: The DDC Depots, as tenants, receive base operations support from the host activity and various other providers through an ISA.

<u>SLA</u>	<u>Estimated Dollar Amount</u>
------------	--------------------------------

4 as Receiver	\$32,000,000.00
---------------	-----------------

As Receiver: Defense Information Systems Agency (DISA) provides main frame processing service for DSS and DDC for mission support to all of the DDC activities. DISA also provides local support to a few DDC Depots for information technology and telecommunications services.

Military Interdepartmental Purchase Requests (MIPR):

Reimbursement for services received or provided is accomplished via DD Form 448, MIPR. Reimbursement billings due under the terms of the agreements will be by a “no check drawn” SF1080, Voucher for Transfer between Appropriations and/or Funds, which are submitted on a monthly basis by the Defense Finance and Accounting Service (DFAS).

Defense Energy Support Center (DESC):

General Counsel	\$ 0.00
Equal Employment Opportunity	93,563.53
DLA Enterprise Services (DES)	3,792,641.69
Financial Services	197,322.60
Information Operations	532,005.64
TOTAL SUPPORT	\$ 4,632,295.85

MIPRs:

- Operations and Capital MIPRs are tracked by DBMS using a unique 14-digit document number assigned by DESC's Resources Management Office, Budget Division. The amounts committed, obligated, expensed and disbursed are available by accessing this document number in DBMS.
- Stock Fund MIPRs are tracked by the Defense Fuel Automated Management System (DFAMS) using a unique MIPR number. The amounts committed, obligated, expensed and disbursed are available by accessing DFAMS.

The dollar amount of MIPRs processed in FY 04 to date is:

Operations	\$ 20,315,930.00
------------	------------------

Capital	21,752,244.00
Stock Fund	355,000,000.00
TOTAL	\$397,068,174.00

o. Management Reviews in other Functional Areas (e.g., Procurement; Command, Control, Communications and Intelligence; Financial; or Environmental):

Defense Supply Center Columbus (DSCC)

Corporate Performance – Compliance Reviews:

- Navy Critical Safety Item (CSI) formal compliance review: Completion estimated late FY 04.
- Army CSI formal compliance review: Completion estimated late FY 04.
- Routine, ongoing Navy CSI Reviews:
 - Compliance review upon receipt of new CSI listing (approximately weekly) to check for various Contract Technical Data File (CTDF) elements.
 - Weekly Missing Data Work List (MDWL)/Purchase Request compliance review to determine if MDWL was processed correctly, including packaging, from a technical/Quality Assurance (QA)/supervisor perspective.
 - Weekly Solicitation compliance review (with Procurement) to determine if buyer/supervisor processed correctly.
 - Monthly contract review based on DSCR listing.
- Routine, ongoing Army CSI Review:
 - Compliance review upon receipt of new CSI listing (approximately weekly) to check for various CTDF elements.
- Routine, ongoing DIBBS review to identify inconsistencies in technical data on open solicitations.
- DLA Metrics and Controls – Defense in Depth Validation testing of the DSCC computer network December 2001 (Annual requirement).

Emergency Services:

- Fire inspections, fire drills, tornado drills.
- Identification card checks (100 percent at entry gates).
- Inspection of nonregistered vehicles (random).
- Inspection of registered vehicles (random).
- Random inspection of visitors.
- Security Program Review, May 18-19, 2004.
- DLA Anti-Terrorism/Force Protection Vulnerability Assessment, June 21-25, 2004.

Procurement:

- Annual Purchase card and approving official accounts reviews.
- Quarterly Convenience Check Reviews by DSCC Internal Review Office.
- Four internal Procurement Management Reviews of DSCC's Application Groups during FY 04.
- Monthly reviews of Procurement Automated Contract Evaluation, small purchase Awards, based on a statistical sampling of the number of awards made.

- Ongoing quarterly reviews of awards made by every contracting officer as part of the Statistical Tracking and Review System program.

Comptroller/Business Analysis:

- Monthly and quarterly updates of core business statistics.
- Monthly Readiness Reviews to Command.
- Monthly DSCC Command briefings of core performance and financial metrics (Corporate Performance Reviews).
- Monthly/Quarterly Performance Management Reviews to HQ DLA.
- Balanced Scorecard - Quarterly briefings and monthly data to Command and HQ DLA.
- Dashboard Metrics/DLA EIS - Performance and financial metrics from corporate level to the individual level with most metrics updated daily, available to each DSCC associate via the Integrated Workstation Portal and Web.
- DSCC Annual Business Plan goals/reports.
- Monthly reports are provided to HQ DLA on the Programming/Planning Budgeting System process, Cash Management and Budget Execution.
- Capital Monthly Phasing Plan provided monthly to HQ DLA.
- Monthly/annual reviews of financial status of each ISA.
- Triannual Unliquidated Obligation (ULO) Reviews to HQ DLA.
- Monthly travel card (VISA) delinquency report to DSCC Command leadership, and DSCC serviced tenants (tracked monthly by HQ DLA).
- Monthly accounts receivable/accounts aging analysis to HQ DLA.
- Monthly report - interest paid on overdue invoices.
- Capital Reconciliation – continuous with HQ DLA reports three times per year. HQ DLA has initiated a comprehensive Accounts Receivable and Accounts Payable Review.

Property Accountability:

- Annual wall-to-wall inventories of all accountable government property, plant, and personnel equipment.
- Spot inventories to ensure that the hand receipt holders are in compliance with current policies - divided among the number of existing Hand Receipts so they are spread throughout the 12 months with one being performed on each Hand Receipt annually.

Safety:

- Annual inspections/surveys of Center operations and serviced organizations. The DSCC Safety and Health Office conduct quarterly safety program assessments.

Logistics Operations (J-3):

Program Management Review (PMR):

- One of the primary means for determining reasonable assurance has been established through the conduct of PMRs of the Agency's contracting offices. J-3 can establish accountability for all contracting functions and measure and evaluate each contracting

office's performance through PMRs. The PMR teams examine procurement processes to ensure that assets, program responsibilities, and contracting operations have been reasonably insulated against fraud, waste, abuse, and/or mismanagement. PMRs also evaluate the efficiency and effectiveness of each activity's management control program. The frequency of reviews is based upon an annual risk assessment, but all activities are reviewed at least once every 4 or 5 years, more frequently if there is a need. The PMR program is in agreement with the principles and objectives of the National Performance Review, the Government Performance and Results Act and current Agency corporate performance plans. Supply Centers, as well as many of the other contracting activities, have also adopted local PMR programs similar to the HQ DLA approach as part of their oversight. Local review teams are composed of individuals drawn from throughout the procurement organization.

- PMR teams assess procurement integrity, business practices, compliance with laws and regulations, and overall efficiency and effectiveness of the organization. To accomplish this, team members review performance data; look at a random sample of individual contract and purchase order files; examine documentation supporting a broad range of programs; observe and analyze processes related to the activity's organizational structure and operations; and interview a cross section of personnel in the organization. Key managers are briefed throughout the process. Commanders and Administrators are sent a report with detailed discussions of deficiencies and recommendations for improvement shortly after each PMR is completed. The activity reviewed is required to prepare a management plan in response to findings and recommendations of the PMR report that outlines the corrective action to be taken.
- Scheduled PMRs were conducted at DES, DRMS, Defense National Stockpile Center (DNSC), and DESC. While each PMR identified a need for several corrective actions to improve the integrity of the procurement process, business practices, compliance, and efficiency or effectiveness, no material weaknesses were reported.

Establishment of the Center Senior Procurement Official (CSPO) and Evaluation of Contract Quality Management Plans (CQMP):

- The integration of the contracting function into multifunctional teams has heightened the need to ensure that contracting responsibilities are managed in a way that minimizes the risk attendant to the integration of contracting into these teams. As a result, in FY 96, the position of CSPO was established at each of the four ICPs. This position is to be occupied by a strong, functionally independent procurement official who oversees the procurement function and who will ensure the fundamental integrity of each activity's procurement system. In conjunction with the CSPO carrying out his or her duties and responsibilities, the Head of the Contracting Activities (HCA) were required to develop a CQMP. The purpose of the CQMP is to assure that each HCA has in place an effective management control plan that specifies how the CSPO's duties will be accomplished and ensures contracting system controls and integrity. The CQMP also addresses how the CSPO will achieve continuous improvement of contract quality in all phases of the procurement process. Each ICP

has a CSPO in place carrying out the prescribed duties and responsibilities. J-3 staff reviewed each ICP's CQMP during FY 04 and found no material weaknesses.

Evaluation of Field Quality Programs:

- Contracting activities are responsible for providing an effective management system to monitor, evaluate, and improve the quality of contracting. Each activity is responsible for developing a quality program that would meet several regulatory standards and result in continuous improvement in the quality of contracts. This program is maintained at each activity by the individual responsible for contract clearance and oversight. These offices have been established as the principle partners for advancing the quality of the total procurement system and as the focal points for fostering process improvements. The reviews are also accomplished to see that the ICPs have complied with the standards, have developed initiatives, which are oriented toward procurement processes, and have promoted quality throughout the organization and in all aspects of contracting.
- During FY 04, the activity contract clearance and oversight function was reviewed during PMRs conducted at DES, DRMS, DNSC, and DESC. No material weaknesses were found.

Contract Clearance and Oversight Program:

- Through a contract clearance and oversight process, J-3 staff performs individual contract file reviews on the Agency's most complex, high risk, and sensitive contracting actions to ensure the laws, regulations, and sound business practices are properly applied in carrying out the Agency's mission. The recommendations of these reviews are authoritative in nature and are designed to improve the overall quality of contracts and to enhance operations through recommending changes to procurement policies, procedures, and practices. The reviews provide one basis for J-3 to reasonably assure that procurement systems are performing in an acceptable manner.
- From May 31, 2003, through June 1, 2004, J-3 reviewed 48 individual contract files on a presolicitation, prenegotiation, pre-award, or post-award basis. This compares to 58 files in FY 03, 61 files in FY 02, 52 files in FY 01, 59 files in FY 00, and 37 files in FY 99. While some of the reviews required corrective action before or after the award, none of the reviews disclosed any material weaknesses.

Reviews by the Acquisition Planning Executive Council (APEC)), the Integrated Acquisition Review Board (IARB), and HQ DLA advance acquisition planning template:

- The J-3 mission and objectives statement specifies that the organization provide broad managerial and executive oversight of the procurement of supplies and logistics services and support for the Agency's mission and strategic objectives through acquisition excellence. In carrying out this mission, J-3 leads a multi-disciplinary team that performs oversight of proposed high visibility acquisitions through reviews

conducted by the APEC and the IARB. In January 2003, the IARB replaced the APEC as the primary method of conducting these reviews. The IARB is a multi-tier approach to oversight, with additional reviews at various program milestones, versus the APEC's single approval. HQ DLA advanced acquisition templates are lower level reviews that do not meet IARB criteria but still require HQ DLA's approval to proceed. This review and oversight process is designed to ensure that efficient and effective customer material support strategies are being employed, and to ensure that selected approaches are congruent with Agency business initiatives and mission requirements. During FY 04, 62 IARBs and 3 informal APECs/advance acquisition planning template reviews were conducted.

Financial:

- The process used to accomplish the assessment of balancing resources and performance is DLA's Program Budget Review, a review of the current year's planned budget compared with the current year's execution, as well as short and midrange planning and programming extending through FY 11. This process is a continual cycle of reviewing and balancing resource requirements and performance.
- The annual review of requirements and performance begins with a data call letter from J-8 with input from DLA Human Resources, J-3, J-6, and DES. The FAs' responses to the data call letter are reviewed and negotiated during meetings with J-3, J-6, J-8, DES, and the FAs. The results of these discussions are then submitted for review and presented to the Program Business Review Group, consisting of certain agency senior executives and managers from HQ DLA and budget and operations chiefs from the FAs. The final recommendations are then presented to J-3, J-6, J-8, the DLA Vice Director (DLA-DV), and the DLA Director (DLA-D) for decision. The approved funding levels are reflected in budgeting and programming exhibits. The process is documented in various DLA One Book chapters, which define in detail the process, procedures, roles, and responsibilities.

No material weaknesses were identified during this process for the reporting period.

Defense Reutilization and Marketing Service (DRMS):

- HQ DLA, as well as DRMS, conducts a quarterly R&A. The R&A tracks corporate and field performance and aids in addressing concerns or weaknesses. The DRMS BSC also assists in tracking and reviewing corporate performance. A monthly review of the BSM looks at initiative status reports and takes account of milestone progress, assessing various management controls.

Defense National Stockpile Center (DNSC):

DNSC Directorate of Stockpile Contracts (DNSC-C):

- As part of our Risk Assessment and Internal Management Control Review, results are accomplished by (a) random quarterly reviews of sales and acquisitions files; and (b) regulatory changes. A Procurement Management Review (PMR) was conducted on July 12 -16, 2004. To date, no report has been received.

DNSC Directorate of Planning & Market Research (DNSC-M):

- A review was conducted of its control elements, exclusive of accounting and financial responsibilities, for which this office has no assigned responsibilities. The FY 04 assessment of the general controls, inherent risks, and the safeguards, indicates an overall low vulnerability. This vulnerability relates directly: to the outside influences on the Stockpile program, created by unanticipated changes in the commercial commodity markets; from unexpected policy changes from higher Headquarters and Congress; and from newly imposed deadlines, or the raising of domestic industry and Congressional constituent issues.

DNSC Directorate of Environmental Management and Quality Assurance (DNSC-E):

- DNSC issued its Mercury Management FEIS in March 2004. The document was filed with the Office of National Environmental Protection Agency Compliance, United States Environmental Protection Agency as required. DNSC issued its ROD to consolidate the mercury at one site, published in the Federal Register on April 30, 2004. A final consolidation site has not been selected.

DNSC Office of Resource Management (DNSC-R):

Testing Cash Collections:

- A review was conducted of the procedures for ensuring that cash payments collected from customers are accurately applied against their respective bills. In conjunction with the Defense Working Capital Accounting System (DWAS) system administrator, Digital Systems Group (DSG), under contract with the DFAS DWAS Program Management Office; DNSC-R reviewed how cash payments that are received from customers are recorded as deferred credits in DWAS and how these credits are applied against individual bills. DNSC-R and DSG determined that once credits are applied to a specific vendor number in DWAS, the number is subsequently carried on multiple tables and cannot be modified without multiple levels of review and active participation by the system administrator to change the number. DNSC-R determined that the system contains adequate safeguards to prevent fraudulent activity in the form of diverting cash payments to the account of another or bogus customer.

Accounts Payable:

Review Unliquidated Obligations:

- Periodic reviews were performed to ensure planned and executed obligations do not exceed planned budgets for FY 04. During FY 03, DFAS and DNSC determined that the transfer of valid open balances from DBMS to DWAS would significantly improve internal controls and reduce manual effort to support the accounting process. The open balances in DBMS were transferred to DWAS in FY 04.

Minimize Accounts Receivable:

- Delinquent accounts receivable as of June 3, 2003, was \$33,661,391. Delinquent accounts receivable were reduced to \$16,407,665, as of June 30, 2004. The accounts

receivable system in place maintains the integrity of payments. No potential internal control weaknesses were found in the method for establishing the amount due from customers. However, the review of previous Annual Statements of Assurance indicated that accounts receivables were inaccurately reported due to simple human error. These inaccuracies were noted in a DoD IG Report and corrected.

DNSC Directorate of Stockpile Operations (DNSC-O):

- DNSC-O operates a Depot Management Review (DMR) system, which involves the dispatch of DMR Teams to conduct on-site reviews of depot operations. The reviews evaluated major Directorate functions: Storage Operations, Quality Assurance, Facilities Maintenance, and Environmental Protection. Discrepancies are noted and recommendations formulated for their corrections, during those reviews. A quarterly tracking system ensures implementation of the corrections. The Depot Management Review Coordinator monitors and critiques the system; examines the reports; and maintains the tracking process.

p. Quality Assurance Reviews:

Defense Reutilization & Marketing Service (DRMS):

- Compliance Assistance Visits - DRMO level.
- DRMO Chiefs perform three self-certifications per year of DRMOs' compliance with operational and environmental regulations and requirements: Self Assessment and Self Assessment Validation (SAV) – DRMO level; DRMOs rate themselves based on various standard questions and compliance criteria; and DRMS HQ DLA conducts a secondary assessment validating the accuracy of the SAV.

Defense Supply Center Columbus (DSCC):

- The two Product Testing Divisions perform internal quality control checks, quarterly, to monitor compliance with good laboratory practices and internal operating procedures/work instructions. Performance review is one element towards maintaining accreditation to International Organization for Standardization (ISO) requirements. DSCC's Sourcing and Qualification Unit accredited the five testing facilities to ISO 2002 and will perform periodic reviews to insure continued compliance.

Logistics Operations (J-3):

- Product Quality is an ICP Commodity Business Unit (CBU)/Product Center function that supports the Contracting, Supply, and Technical areas with actions to assure that: DLA products conform to customer requirements through the establishment of appropriate technical, contractual, and storage requirements; and customers product quality problems are resolved. The ICP CBU/Product Centers' Quality Assurance personnel are responsible for the quality of their assigned items/weapon systems. The quality assurance contracting support functions are separated into two phases: pre-award and post-award of the contract. Significant processes within the pre-award phase are providing Quality Assurance Provisions (QAP) and contract clauses for incorporation in solicitations. QAPs include the contract quality requirement,

inspection, test requirements and procedures, first article requirements, supplier certification requirements, and input on warranty clauses. Quality guidance is provided to contracting officers through technical and quality advice and analysis of contractors' quality history.

- Pre-award surveys on prospective contractors are performed or reviewed. In addition, requests by contracting officers or contractors to waive QA requirements are analyzed. QA personnel complete the following post-award contracting support:
 - perform or support post-award conferences with the contractor;
 - issue QA Letters of Instruction to the inspection/acceptance point;
 - arrange or perform inspections and tests;
 - analyze test reports; evaluate contractor requests for product deviations and waivers;
 - perform Quality Systems Management Visits and Quality Systems Review;
 - provide quality and commodity training to Contract Administration Service and other contract management organizations, and center and depot personnel;
 - provide support to legal counsel in disputes/fraud/prosecutions;
 - request special investigations; and
 - collect maintain, and provide contractor and item quality history.

Support to Supply/Item Managers is provided through investigation, resolution, and response to Product Quality Deficiency Reports (PQDR) and the development of Storage Standards for Distribution Depots and Military Services (MILSVC).

Support to the Technical/Engineering area is provided through the development of Quality Requirements in Specifications and Technical Data. Product Verification personnel at DLA ICPs/Product Testing Centers determine test/inspection requirements; write test plans; arrange for tests/inspection; arrange for special inspections at the request of QA Specialists; and evaluate and maintain test/inspection results.

- Meetings held with all the Services and analysis of the PQDR documentation revealed that there are many instances of QA Specialists failing to properly investigate PQDRs, during FY 04. More specifically, QA Specialists are not taking action to preclude future item failures, and documenting reasons for failures and corrective action taken. To remedy this situation, Headquarters will implement additional policy and Quality Management Reviews, and require that all personnel, involved in investigating and responding to PQDRs, receive additional training.

q. "Hot Line" Reports: N/A.

OSD SYSTEMIC WEAKNESSES:

- DoD Financial Management Systems and Processes:
 - Navy and DLA Retail Inventory System Interfaces (Tab B).

- Reduce DLA Accounts Receivable and Payable to an Acceptable Balance (Tab B).
- Automated Systems Used to Prepare the DLA Defense Working Capital Fund (DWCF) Financial Statements (Tab B).
- Internal Controls and Compliance with Laws and Regulations for the DLA DWCF Financial Statements (Tab B).
- Management of Information Technology and Assurance:
 - Valuation of Inventories in the Defense Agency SAMMS (Tab B).
 - Information System Intrusion (Tab B).
- Environmental Liabilities: N/A.
- Personnel Security Investigations Program: N/A.
- Real Property Infrastructure: N/A.
- Contracting for Services: N/A.
- Government Card Program Management: N/A.
- Valuation of Plant, Property and Equipment on Financial Reports: N/A.
 - Inaccurate Reporting of PP&E Accounts on Financial Statements (Tab B).
- Valuation of Inventory on Financial Reports: N/A.

TAB B-1

**LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL
WEAKNESSES AS OF SEPTEMBER 30, 2004**

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
--------------	--	---------------

Category: Supply Operations

- | | | |
|--|----------------------------|-------|
| • Processing other Non-recurring Requirement Transaction | 2 ND QTR, FY 05 | B-2-1 |
|--|----------------------------|-------|

Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	<u>Correction QTR & FY Date</u>		Page #
		Per Last Annual Statement	Per This Annual Statement	

Category: Contract Administration

- | | | | | |
|---|-------|----------------------------|----------------------------|-------|
| • Insufficient Price Reasonableness determinations and documentation for buys made by Defense Supply Center Philadelphia (DSCP) General and Industrial (G&I) office | FY 03 | 4 TH QTR, FY 04 | 1 ST QTR, FY 05 | B-2-3 |
| • Delinquency in Fleet Card Payments (Military Service and Department of Defense (DoD) Agencies) | FY 02 | 4 TH QTR, FY 04 | 1 ST QTR, FY 05 | B-2-5 |
| • Pricing of First-Time Buys | FY 02 | 4 TH QTR, FY 04 | 2 ND QTR, FY 05 | B-2-9 |

Category: Communications and/or Intelligence and/or Security

- | | | | | |
|--------------------------------|-------|----------------------------|----------------------------|--------|
| • Information System Intrusion | FY 03 | 1 ST QTR, FY 04 | 1 ST QTR, FY 05 | B-2-12 |
|--------------------------------|-------|----------------------------|----------------------------|--------|

Category: Comptroller and/or Resource Management

- | | | | | |
|--------------------------------|-------|----------------------------|----------------------------|--------|
| • Mass Transit Benefit Program | FY 03 | 4 TH QTR, FY 04 | 1 ST QTR, FY 05 | B-2-14 |
|--------------------------------|-------|----------------------------|----------------------------|--------|

Uncorrected Weaknesses Identified During Prior Periods (continued):

Title	Year First Reported	Correction QTR & FY Date		Page #
		Per Last Annual Statement	Per This Annual Statement	
Category: Comptroller and/or Resource Management (continued)				
• Reduce Defense Logistics Agency (DLA) Accounts Receivable and Payable to an Acceptable Balance	FY 02	4 TH QTR, FY 04	4 TH QTR, FY 05	B-2-16
• Valuation of Inventories in the Defense Agency Standard Automated Materiel Management System	FY 01	1 ST QTR, FY 05	4 TH QTR, FY 06	B-2-19
• Navy and DLA Retail Inventory System Interfaces	FY 00	2 ND QTR, FY 06	2 ND QTR, FY 06	B-2-21
• Automated Systems Used to Prepare the DLA Defense Working Capital Fund Financial (DWCF) Statements	FY 00	4 TH QTR, FY 07	4 TH QTR, FY 07	B-2-24
• Internal Controls and Compliance with Laws and Regulations for the DWCF Financial Statements	FY 00	4 TH QTR, FY 07	4 TH QTR, FY 07	B-2-27
• Inaccurate Reporting of Plant, Property and Equipment Accounts on Financial Statements of the DLA Business Activity Groups, of the Defense Working Capital Fund	FY 99	4 TH QTR, FY 06	4 TH QTR, FY 06	B-2-31

Corrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	<u>Correction QTR & FY Date</u>		Page #
		Per Last Annual Statement	Per This Annual Statement	

None.

TAB B-2

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

FORCE READINESS: N/A

MANUFACTURING, MAINTENANCE, AND REPAIR: N/A

SUPPLY OPERATIONS:

Uncorrected Weakness Identified During The Period

<i>Description of Issue</i>	Processing Other Non-recurring Requirement (ONRR) Transactions. Department of Defense (DoD) Inspector General (IG) Report D2003LD-0018 concluded that Defense Logistics Agency (DLA) policies and procedures for processing 35,405 other nonrecurring requirement transactions, valued at \$263.6 million, were inadequate. Consequently, DLA could miss opportunities to minimize investment dollars.
<i>Functional Category</i>	Supply Operations
<i>Component</i>	DLA
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2004 • <u>Original Targeted Correction Date</u> - N/A • <u>Targeted Correction Date in Last Year's Report</u> - N/A • <u>Current Target Date</u> - 2ND QTR, FY 05
<i>Reason for Change in Date (s)</i>	N/A
<i>Component/ Appropriation/ Account Number</i>	DLA Defense Working Capital Fund (DWCF).
<i>Validation Indicator</i>	All Defense Supply Centers (DSC) validated ONRR files. Annual validations will be the methodology to certify.
<i>Results Indicators</i>	The DSC's implementation of their respective policies will ensure proper processing of ONRR transactions.
<i>Source Document</i>	DoD IG Report D2003LD-0018.

***Progress
To Date*****Major Milestones in Corrective Action:****A. Completed Milestones:**

<u>Date:</u>	<u>Milestone:</u>
Completed	DSCs tasked to review and validate ONRRs in file.
Completed	Reviewed DLA Headquarters (HQ DLA) and DSC ONRR policies.
Completed	DSCs tasked to provide copies of their local policies.
Completed	DSCs completed ONRR validation.
Completed	Published DLA ONRR policy.

B. Planned Milestones for FY 05:

<u>Date:</u>	<u>Milestone:</u>
4 TH QTR, FY 04	Defense Supply Center Philadelphia, PA (DSCP) General and Industrial (G&I) will develop ONRR policy.

C. Planned Milestones for Beyond FY 05:

<u>Date:</u>	<u>Milestone:</u>
1 ST QTR, FY 05	DSCP G&I ONRR policy will be reviewed and published upon receipt.
2 ND QTR, FY 05	Complete internal HQ DLA validation.

CATEGORY:

RESEARCH, DEVELOPMENT, TEST AND EVALUATION: N/A

MAJOR SYSTEMS ACQUISITION: N/A

PROCUREMENT: N/A

CONTRACT ADMINISTRATION:

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue **Insufficient “price-reasonableness” determinations and documentation for buys made by the Defense Supply Center Philadelphia (DSCP) General and Industrial (G&I) office.** The Defense Logistics Agency (DLA) Special Process Procurement Management Review (PMR), June 2003, concluded that DSCP has a weakness with “price-reasonableness.” This problem goes beyond the issue of first-time buys not having sufficient documentation to support pricing.

The G&I Directorate is currently developing plans to address the findings of the PMR. DSCP is developing a plan to identify those procurement personnel fully qualified as subject matter experts to perform mentoring and training within each Commodity Business Unit (CBU).

Functional Category Contract Administration

Component DLA

Pace of Corrective Action

- Year Identified - Fiscal Year (FY) 2003
- Original Targeted Correction Date - 4TH QTR, FY 04
- Targeted Correction Date in Last Year’s Report – 4TH QTR, FY 04
- Current Target Date - 1ST QTR, FY 05

Reason for Change in Date (s) DLA scheduled internal audits and a PMR to ensure compliance. Closure of this material weakness will be dependent, in part, upon results of the October 2004 DLA PMR.

Component/ Appropriation/ Account Number DSCP G&I Directorate, DLA Defense Working Capital Fund (DWCF).

Validation Indicator DSCP Internal Review will perform physical verification upon completion of corrective action.

Results Indicators DSCP will conduct internal and external audits on a regular and recurring basis to assess contract award “price-reasonableness” and to ensure there is sufficient file documentation justifying the determination.

Source Document DLA Special Process PMR, June 2003.

Progress to Date Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	The G&I Directorate developed plans to address the findings of the PMR. The plan identified those procurement personnel fully qualified as subject matter experts to perform mentoring and training within each CBU. The recently formed G&I Procurement Tiger Team identified pricing and file documentation as critical areas for review. This team has been targeted for inclusion in the G&I Management Control Plan and progress in these areas will be monitored on a periodic basis.
Completed	Identified subject matter experts to mentor procurement personnel.
Completed	Created a training program to cover all aspects of procurement policies and internal procedures. The training program targets all buyers associated with pricing problems cited within the PMR. Buyers have individualized training, mentoring, and oversight focused on resolving identified deficiencies and reinforcing correct practices and procedures.
Completed	Instituted a formal contract award audit and review program for each section within the G&I office. Approximately 25 awards per month per section are now reviewed.
Completed	Conducted an analysis and review of internal audit statistics to assess trends and performance of each G&I CBU periodically.
Completed	The DSCP Contracting Directorate conducted an external audit review, similar in breadth to the DLA Headquarters (HQ DLA) PMR, to address G&I performance.

B. Planned Milestones for FY 05:

<u>Date:</u>	<u>Milestone:</u>
4 TH QTR, FY 04	Analyze internal audit statistics to assess trends and performance. Compliance should consistently remain above 85 percent for each CBU with a target of 90 percent. Overall compliance for G&I should consistently remain above 85 percent.
4 TH QTR, FY 04	HQ DLA will conduct a PMR similar to the DLA Special Process PMR, June 2003 to assess G&I performance.
1 ST QTR, FY 05	Request physical verification by DSCP Internal Review Office for closure of material weakness.

C. Planned Milestones for Beyond FY 05: None.

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue **Delinquency in Fleet Card Payments (Military Service and Department of Defense (DoD) Agencies).** Draft DoD Directive 7400.aa, specifically assigned the overall DoD Fleet Card Program responsibilities to The Under Secretary of Defense for Acquisition, Technology and Logistics (AT&L), and re-delegates responsibility to the Director, Defense Logistics Agency (DLA). In turn, DLA named Ms. Deborah Van Kleef of the Defense Energy Support Center (DESC) as the point of contact for the DoD Fleet Card Program, promulgated in the DLA Enterprise Services (DES) letter, dated October 25, 2002 and Draft DoD Directive 7400.aa. The DES letter provides DESC as the point of contact, but does not however, delineate roles and functions. At the time of this designation, DESC did not establish a separate Program Management Office for the DoD Fleet Card or for the other Government Fuel Cards (AIRCARD and SEACARD) under DESC management control. Full responsibility for the program management function for these Government Fuel Cards rested solely with Ms. Vankleef, during a period in which she maintained responsibility for other assigned projects within DESC.

DESC did not adequately communicate to the Government Fuel Card user community the extent of its oversight responsibilities. This became apparent in February 2004 following a fraud case involving unauthorized usage of the DoD Fleet Card by a Navy contract support employee in Norfolk, Virginia. During the subsequent investigation, it was revealed that the Naval Criminal Investigative Service was not aware of DESC's program management responsibilities.

Policy, Rules and Responsibilities:

Draft DoD Directive 7400.aa, further states that The Under Secretary of Defense for AT&L shall issue DoD Instructions, DoD Publications, and one time directive-type memoranda consistent with DoD 5025.1-M as necessary to implement this directive. DESC policy for the DoD Fleet Card is contained in Chapter 16 of DoD 4140.25-M, Management of Bulk Petroleum Products, Natural Gas and Coal, Volume II dated June 12, 2002. This section is general in nature and does not adequately define roles and responsibilities of the Agency/Organization Program Coordinators (A/OPC), the fleet managers, the billing officer/certifying official, and the users of the individual cards.

The Integrated Process Team (IPT) of the DoD Purchase Card Joint Program Office (SFCA-PC), a unit of the Army Contracting Agency, is currently completing development of a Department of Defense Government Charge Card Business Rules Guidebook. This guidebook will include defined roles and responsibilities for program management offices for purchase, travel and fuels cards and will include defined roles and responsibilities for all levels of

control within each service including the end-user. It is anticipated that this guidebook will be released in late summer 2004. At this point, the fuel card section of the guidebook has not been completed.

Delinquencies:

Since April 2002, late payments have drastically declined. The reduction is due to implementation of DESC's split billing process. With this process, DESC pays the vendor for all fuel charges incurred and directly rebills the customer for fuel they purchased. Nonfuel purchases are directly invoiced and paid by the home station payment offices. Nonfuel purchases equate to less than 15 percent of all DoD Fleet Card charges.

<i>Functional Category</i>	Contract Administration
<i>Component</i>	DLA
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2002 • <u>Original Targeted Correction Date</u> - 4TH QTR, FY 02 • <u>Targeted Correction Date in Last Year's Report</u> - 4TH QTR, FY 04 • <u>Current Target Date</u> - 1ST QTR, FY 05
<i>Reason for Change in Date (s)</i>	DESC has recently established a formal Government Fuel Card Program Management Office (DESC-K). This newly formed office will have responsibility for immediate establishment of the required program management and oversight procedures and will be staffed to begin execution of the full spectrum of program management responsibilities.
<i>Component/ Appropriation/ Account Number</i>	N/A.
<i>Validation Indicator</i>	Internal Review Audit to assess adequacy of the control procedures established.
<i>Results Indicators</i>	<p>The point of contact for DESC-K is Mr. Kevin Ahern (767-1160). As the Director of DESC-K, Mr. Ahern will serve as the program manager for the Government Fuel Card and will report directly to the DESC Deputy Director (DESC-DD). DESC-K staff will include 11 full-time equivalents covering program management, service specific account management, systems integration, and oversight/inspection (see attached organization chart).</p> <p>Status of ongoing efforts to establish the DESC-K will be briefed periodically to the DESC Corporate Board with further briefing provided to the DLA Director (DLA-D). The material weakness will continue to be reported to the DLA Deputy Director until such time that DESC-K is fully</p>

operational and subsequent internal review audits reveal that previously revealed deficiencies are adequately overcome.

Metrics: As part of the implementation of the newly formed DESC-K, one of the milestones is to establish and implement metrics. Specific metrics will include:

Audit/Inspection: Once the magnitude of the workload is defined, specific metrics will be established for completion of periodic audit and inspections to ensure that every possible effort is made to detect potential fraudulent usage of the Government Fuel Cards.

Fraud Cases: Metrics will be established to gauge the success of efforts in training and oversight in minimizing potential fraudulent use of Government Fuel Cards.

Training: Metrics will be established to track training for all participants in the management and control of Government Fuel Cards down to and including card users to ensure that proper procedures, limitations of use, and penalties for misuse are clearly communicated.

***Source
Document***

Internal Review Audit performed by DESC.

***Progress to
Date***

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Due to unforeseen billing issues that had to be resolved prior to end of FY 03 this date was revised from June to November. Provided Office of the Secretary of Defense (OSD) overall procedures for DoD split billing process; posted process on the DESC Web site.
Completed	Due to some billing issues that needed to be resolved prior to end of FY 03 the date was revised from April to December. The DESC policy and procedures guide was posted and published on the FES User information web page. DESC is working with the DoD Purchase Card Program Management Office and DoD Inspector General representatives to define future requirements and data mining tools. DESC currently working to assign Accountable Officials for the DoD Fleet Cards

	assigned. DESC assigned the Direct Delivery Tech Team to work the card updates and systematic issues.
Completed	Added DESC fuel cards to the draft DoD Directive 7400.aa. which was signed by USD(C) and USD AT&L in June 2004; and forwarded for approval to the Secretary of Defense.
Completed	Public Works Center (PWC) Norfolk, VA, fraud investigations revealed.
Completed	Site visit to PWC Norfolk and Naval Criminal Investigative Service (NCIS) representatives.
Completed	Accountable Official nomination letters sent to all DoD fleet card points of contact.
Completed	Briefed DLA-D on fraud investigations. Recommended formal establishment of a Fuel Card Program Management Office. DLA-D approval granted.
Completed	DESC General Order No. 06-04 approved to establish the Government Fuel Card Program Management Office (DESC-K).
Completed	Integrated Process Team established to define roles and responsibilities of the FC PMO.
Completed	Progress brief to DLA-D.

B. Planned Milestones for 4TH QTR, FY 04 and FY 05:

<u>Date:</u> 4 TH QTR, FY 04	<u>Milestone:</u> Complete business rules, including defined roles and responsibilities for the Government Fuel Cards for coordination amongst the Services.
4 TH QTR, FY 04	Revise DESC web page to include a separate link for the Government Fuel Card Program Management Office. The Fuel Card PMO web page will continue to be updated to include links to information important to service level A/OPCs and end users including SOPs, Guidebooks, training materials, lists of POCs, etc.

4TH QTR, FY 04 Complete coordination of above referenced business rules and publish in the Department of Defense Government Charge Card Business Rules Guidebook.

C. Planned Milestones for Beyond FY 05:

<u>Date:</u>	<u>Milestone:</u>
1 ST QTR, FY 05	Complete hiring process to staff the Government Fuel Card Program Management Office (DESC-K).
1 ST QTR, FY 05	Establish Periodic Audit Procedures and formalize a Program Management Plan to ensure inspection and oversight responsibilities are adequately addressed.
1 ST QTR, FY 05	Establish and implement a formal training program for A/OPCs and end-users including development and maintenance of a training database to ensure initial training and refresher training is completed as necessary. Web page changes will address all Major Milestones in Corrective Action.

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue	Pricing of First-Time Buys (FTB). This finding resulted from a special process Defense Logistics Agency (DLA) Procurement Management Review (PMR) dated June 28, 2001. The finding stated that the contracting personnel at three DLA Supply Center need to improve the “price-reasonableness” determinations on FTBs and ensure that contract files are adequately documented with pricing technique(s) used to make the “price-reasonableness” determination.
Functional Category	Contracting
Component	DLA
Pace of Corrective Action	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2002 • <u>Original Targeted Correction Date</u> - 4TH QTR, FY 02 • <u>Targeted Correction Date in Last Year's Report</u> – 4TH QTR, FY 04 • <u>Current Target Date</u> - 2ND QTR, FY 05
Reason for Change in Date (s)	Improvement in the level of compliance was achieved. However, this improvement did not reach the goal of 85 percent compliance. This material weakness has been extended until the level of compliance meets the original goal. A Formal Audit was conducted in April 2004, which indicated further improvement is necessary. Closure of this material weakness will be dependent upon accomplishing this improvement, which should be confirmed by the results of the October 2004 DLA Procurement PMR. DLA is taking the opportunity to act on recommendations resulting from the April Audit.
Component/ Appropriation/ Account Number	DLA Defense Working Capital Fund (DWCF).
Validation Indicator	DLA Field Activities Internal Review Offices will perform physical verification upon completion of corrective action. The anticipated certificate date is 2 ND QTR, FY 05.
Results Indicators	DLA has implemented changes to its contract quality improvement program that address overall contract quality and which concentrates on overcoming the lack of Price Justification on first-time buys (FTB) as described in the DLA PMR.

All FTBs, regardless of dollar value, now require Price Reasonableness Determinations (PRD) and Level Above Contracting Officer (KO) Approval.

Audits are being conducted to verify that an acceptable level of quality (85 percent compliance) has been reached and maintained at or above acceptable levels by this Commodity Business Unit (CBU) and by every buyer individually and will continue to conduct quality reviews of their buyers.

If the CBU as a whole does not meet acceptable parameters, actions will be taken to assure the CBU is brought into compliance including but not limited to revoking the authority to have our KOs sign their own work, pulling of Warrants from all but a small cadre of KOs, requiring reviews by level above KO for additional categories of buys.

Egregious errors or abuse of authority by individual contracting officers will be dealt with by actions including: Discussing findings with the KO, issuance of a written warning and/or temporary warrant suspension, or revocation of warrant.

Buyers who do not meet acceptable parameters will be counseled, receive remedial training, and/or have their warrants suspended or revoked.

***Source
Document
Progress to
Date***

DLA Special Process PMR of June 11-18, 2001.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	At the Defense Supply Center Philadelphia (DSCP), the recently formed General and Industrial (G&I) Procurement Tiger Team, at DSCP, identified pricing and file documentation as critical areas for review. This team has been targeted for inclusion in the G&I Management Control Plan and progress in these areas will be monitored on a periodic basis.
Completed	Informed buyers of the new requirements for FTBs and forwarded a sample checklist to help them improve their individual pre-award reviews.
Completed	Periodically pulled buys for audits and internal reviews.
Completed	Audit results were forwarded for review and action. Results reflect improvement in compliance statistics. Taking additional remedial action to continue improvement.

Completed	Quarterly reviews were conducted on statistically valid samples of FTBs to ensure proper documentation of “price-reasonableness” determinations.
Completed	The Defense Supply Center Columbus (DSCC) identified organizations with the majority of the noncompliance for 2 ND QTR, FY 04; informed them of the deficiencies; and provided guidance to help them improve their individual pre-award reviews.
Completed	An audit was performed by the DSCC Internal Review Office, DSCC-DI on June 25, 2004.

B. Planned Milestones for FY 05:

<u>Date:</u> Ongoing	<u>Milestone:</u> Training buyers on requirements for FTBs.
Ongoing	Continued reviews of a statistically valid sample of FTBs to ensure proper documentation of “price-reasonableness” determinations.
Ongoing	Defense Supply Center Philadelphia (DSCP): Conduct audit based on dedicated database search of FTBs. Compliance should consistently remain above 85 percent for each CBU with a target of 90 percent. Compliance for G&I should remain consistently above 85 percent. Defense Supply Center Columbus (DSCC): DSCC-DI will continue validating the processes being used to correct this weakness and provide assistance to DSCC-PCC, as needed.
1 ST QTR, FY 05	Procurement Management Review conducted by DLA Headquarters, similar to the DLA Special Process PMR, June 2003 undertaken to assess G&I performance.
1 ST QTR, FY 05	Request physical verification by DSCP Internal Review Office for closure of material weakness.
2 ND QTR, FY 05	Request verification by the DSCC Internal Review Office for closure of material weakness.

C. Planned Milestones for Beyond FY 05: None.

PROPERTY MANAGEMENT: N/A.

COMMUNICATIONS AND/OR INTELLIGENCE AND/OR SECURITY:

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue	Information System Intrusion. The DAASC detected an incident of computer system intrusion. DAASC Network Team and ISSO were notified of a high volume of e-mail that was being dropped by the Norton AntiVirus™ software due to a virus (worm). DAASC notified the Defense Logistics Agency (DLA) Computer Emergency Response Team (CERT) of the incident. They had not previously been apprised of this. Because of heightened systems security awareness, DAASC was not infected with the virus and provided the CERT with information and assistance that was helpful in prevention of the worm spreading further through DLA. The worm already infected many government organizations.
Functional Category	Communications and/or Intelligence and/or Security
Component	DLA
Pace of Corrective Action	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2003 • <u>Original Targeted Correction Date</u> - FY 03 • <u>Targeted Correction Date in Last Report</u> - 1ST QTR, FY 04 • <u>Current Target Date</u> - 1ST QTR, FY 05
Reason for Change in Date (s)	To allow for program audit for verification of closure.
Component/ Appropriation/ Account Number	DLA Defense Working Capital Fund (DWCF).
Validation Indicator	All corrective action(s) are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, DLA Information Operations (J-6) Review and Analysis (R&A), J-6 Business Plan milestone, DLA Enterprise Business Plan R&A, and management control reviews.
Results Indicators	Heightened security awareness regarding intrusion detection and the implementation of Public Key Infrastructure (PKI) enablement with sign-on access to DAASC EDI systems. The initial implementation of PKI enablement was implemented first quarter, FY 04; final implementation is expected by fourth quarter, FY 04.

Source Document The following sources identified computer system intrusion:
A DAASC customer reported slow response to system queries.
Internal investigation on July 30, 2003, exposed the incident of computer system intrusion.

Progress to Date Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Mandatory security awareness training.
Completed	Internal investigation of security violations.
Completed	Comprehensive review of network operations.
Completed	Interim Authority to Operate (ATO) issue.
Completed	Weekly Information Assurance update to DAASC Director.
Completed	Brief to DLA J-6 Director.
Completed	Continuing effort to protect Criticality of DAASC Mission.

B. Planned Milestones for 4TH QTR, FY 04 and FY 05:

<u>Date:</u>	<u>Milestone:</u>
4 TH QTR, FY 04	Implement PKI enablement.
4 TH QTR, FY 04	DAASC profile quarterly reviews.
4 TH QTR, FY 04	ATO re-established.
1 ST QTR, FY 05	Program audit for closure of weakness.

C. Planned Milestones for Beyond FY 05: None.

INFORMATION TECHNOLOGY:
 PERSONNEL AND/OR ORGANIZATION MANAGEMENT: N/A.
 COMPTROLLER AND/OR RESOURCE MANAGEMENT:

Uncorrected Weaknesses Identified During Prior Periods

<i>Description of Issue</i>	Mass Transit Benefit Program: Review of program processes and procedures resulted in Defense Logistics Agency (DLA) program manager contacting Department of Defense (DoD) Inspector General (IG) to request DoD wide audit. Draft reported providing findings regarding documentation of the program policies and procedures and subsidized parking.
<i>Functional Category</i>	Comptroller and/or Resource Management
<i>Component</i>	DLA
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2003 • <u>Original Targeted Correction Date</u> - 4TH QTR, FY 04 • <u>Targeted Correction Date in Last Year's Report</u> - 4TH QTR, FY 04 • <u>Current Target Date</u> - 1ST QTR, FY 05
<i>Reason for Change in Date (s)</i>	Reason for Change in Date: Union was negotiating the Master Labor Agreement and could not make changes to any program in the interim. Labor Agreement has now been signed.
<i>Component/ Appropriation/ Account Number</i>	DLA Defense Working Capital Fund (DWCF).
<i>Validation Indicator</i>	Procurement Management Review to be conducted during FY 05.
<i>Results Indicators</i>	Memorandum to employees issued regarding re-certification and re-registration of vehicles. Completion of successful program audit.
<i>Source Document</i>	Kathryn Elliott, DLA Mass Transit Program Manager reported material weaknesses FY 03.

***Progress to
Date*****Major Milestones in Corrective Action:****A. Completed Milestones:**

<u>Date:</u>	<u>Milestone:</u>
Completed	Union agreed on memorandum to employees regarding parking and re-registration of vehicles and re-certification of program participants.

B. Planned Milestones for FY 05:

<u>Date:</u>	<u>Milestone:</u>
1 ST QTR, FY 05	Post memorandum, dated August 20, 2004, to Mass Transit Web site.
1 ST QTR, FY 05	Re-certification of program participation and re-registration of vehicles.
1 ST QTR, FY 05	Validation of parking decals/re-certification of participants against DOT database.
1 ST QTR, FY 05	Internal Audit to conduct Program Review.

C. Planned Milestones for Beyond FY 05: None.

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue	Reduce Defense Logistics Agency (DLA) Accounts Receivable (A/R) and Accounts Payable (A/P) to an Acceptable Balance. DLA expects to meet current prescribed due dates, complete deliverables, make documentation available, and settle pending claims.
Functional Category	Comptroller and/or Resource Management
Component	DLA
Pace of Corrective Action	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2002 • <u>Original Targeted Correction Date</u> - 4TH QTR, FY 03 • <u>Targeted Correction Date in Last Year's Report</u> - 4TH QTR, FY 04 • <u>Current Target Date</u> - 4TH QTR, FY 05
Reason for Change in Date (s)	DLA devoted considerable time and resources in achieving the goal set forth in the revised Office of the Under Secretary of Defense (OUSD)(C) guidance, June 2003, which states that all receivables greater than two years must be closed by December 2003 (DLA, by March 2004). The Agency experienced a phenomenal growth in sales and obligation requirements, which caused an increase in the number of transactions processed monthly. As a result, DLA made trade-offs in order to focus competing resources on reducing receivables within the established OUSD goals, while maintaining payables at the existing level. The Agency made significant progress in reviewing existing processing procedures, issuing standard guidance, monitoring and clearing delinquent receivables, and maintaining over-aged payables. Additional time is required to continue the review effort to reach an acceptable balance. Little or no cost and/or operational impact, as a result of the delay in correcting this finding, is anticipated.
Component/Appropriation/Account Number	DLA Defense Working Capital Fund (DWCF): General Funds, and Defense Working Capital Fund, 97X4930. No funding is required, specifically, to resolve this weakness.
Validation Indicator	DLA Financial Operations (J-8) will determine and standardize the approach to the field activity Financial Service Offices (FSO). The Defense Finance & Accounting Service (DFAS) will use in the validation: collections, payments, updates to write-offs, and close-outs of over-aged balances. An independent audit agency will validate the developed process.
Results Indicators	A/R and A/P will be reduced to an acceptable level. J-8 will monitor and track status through monthly reviews and analysis to ensure A/R and A/P over-aged balances remains in a current status.

**Source
Document**

- J-8 Review.
- Deloitte & Touche Assessment Report for FY 01.

**Progress to
Date**

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Initiated action with DFAS Columbus to identify DLA customers with high dollar over-aged A/R & A/P balances.
Completed	Stratified A/R & A/P data by DLA activity to determine extent of review required.
Completed	Issued standard guidance to FSOs on review process and coordinated effort with DFAS Columbus and Charleston.
Completed	Reviewed A/R and A/P for supportability, validity, and accuracy.
Completed	Coordinated effort with procurement or fund holder to modify, cancel, or amend obligation document to the amount actually owed to the beneficiary.
Completed	Collected, wrote-off, or closed supportable and valid A/R over two years old as of February 28, 2002, except those transferred to Debt Collection, OUSD(C), or the Department of Justice (March 30, 2004).
Completed	Established allowance accounts and evaluate on an annual estimate.
Completed	Established DLA DFAS Concept of Operations for Accounts Receivables & Accounts Payables to implement standard procedural guidance.
Completed	Submitted draft One Book Chapters for Allowance Account, A/R and A/P to incorporate Agency-wide guidance.
Completed	Held Quarterly DLA DFAS Financial Process Improvement Team Meetings to discuss A/R and A/P processes and status.

Completed	Revised A/R guidance to incorporate policy changes related to A/R greater than two years old.
Completed	Coordinated the effort between DLA and DFAS to determine the extent of additional review and impact to operations.
Completed	Modified A/R milestone plan to collect, correct, write-off, or close supportable and unsupported A/R greater than two years, except receivables in litigation or in the process of being collected.
Completed	Requested guidance from OUSD(C) to close R/R due from other Federal agencies, greater than two years old, requiring resolution.
Completed	Closed all receivables greater than two years in accordance with OUSD(C) Memo, dated June 20, 2003.
Completed	Established plan to liquidate valid overaged A/P (each DLA activity).
Completed	Continued research on problem disbursements and collections to match against corresponding A/R and A/P.
Completed	Monitored and tracked A/R and A/P status through monthly review analysis.

B. Planned Milestones for FY 05:

<u>Date:</u>	<u>Milestone:</u>
1 ST QTR, FY 05	Implement a plan to liquidate valid overage A/P and write-off invalid payables (each DLA activity).
2 ND QTR, FY 05	Determine if receivables and payables have reached an acceptable level.
3 RD QTR, FY 05	Coordinate and resolve open receivables and payables not within acceptable range.
4 TH QTR, FY 05	Verify final corrective action with J-308, DLA Logistics Operations, Internal Review Office.

C. Planned Milestones for Beyond FY 05: None.

Uncorrected Weaknesses Identified During Prior Periods

<i>Description of Issue</i>	<p>Valuation of Inventories in the Defense Agency Standard Automated Materiel Management System (SAMMS), Department of Defense (DoD) Report D-2002-009, Project No. D2000FJ-0067.006:</p> <p>The values assigned to inventories in SAMMS were not always accurate or substantiated. Contract folders, no longer available, were used to trace procurement awards and prices recorded in the Agency's automated material management systems back to award folders for a significant portion of the inventory values. Correction of the inventory valuation weakness involves past buys and future buys.</p>
<i>Functional Category</i>	Comptroller/Resource Management and Supply Operations
<i>Component</i>	Defense Logistics Agency (DLA)
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2001 • <u>Original Targeted Correction Date</u> - 1ST QTR, FY 05 • <u>Targeted Correction Date in Last Year's Report</u> - 1ST QTR, FY 05 • <u>Current Target Date</u> - 4TH QTR, FY 06
<i>Reason for Change in Date (s)</i>	<p>DLA substantially revised and expanded previous corrective action since last year's report. Last year's report was reviewed in part by the certified public accounting (CPA) firm that formerly provided independent financial consultation/review services to DLA. Such support services are now being obtained from a different firm, which will not be in a position to reach a conclusion as to the suitability of the revised approach until approximately 2ND QTR, FY 05. Additionally, the Office of the Under Secretary of Defense recently initiated a department-level review of inventory, overhaul and sundry costs. DLA's corrective action plan will now require review in FY 05 by the team of CPA firms supporting that effort, to assure consistency with the various alternative inventory valuation methodologies currently undergoing department-wide review. The DoD Inspector General (IG) also has oversight review responsibilities involving financial statement matters and will be involved in future coordination efforts. DLA's corrective action plan involves the conversion of inventory valuation methodology as items are transferred for management in the legacy systems, to the business systems modernization solution being developed for DLA. The item transfer process, now targeted for completion in September 2006, must be completed before confirming with the assurance from the aforementioned independent CPA teams, that DLA's financial systems can sustain the certified financial statements review directed to be achieved department-wide for FY 07.</p>

<i>Component/ Appropriation/ Account Number</i>	DLA Defense Working Capital Fund (DWCF).								
<i>Validation Indicator</i>	DLA is developing a segmentation analysis including actual/approximated Moving Average Cost (MAC)-based valuations of all DLA nonenergy inventory. DLA awarded a contract to Urbach Kahn & Werlin, LLP (UKW), certified public accountants, early FY 04, to complete auditability assessments, including the inventory area, in an effort to meet DLA's strategic goal of achieving an unqualified audit opinion on the consolidated financial statements by FY 07. The auditability assessments will include a review of DLA's corrective actions aimed at developing an appropriate, nonenergy inventory baseline.								
<i>Results Indicators</i>	UKW will test and validate the processes and the resulting MAC calculations, to assure that the resulting MAC-based consolidated inventory valuation in FY 07 is sufficiently accurate and supportable to achieve at least a qualified independent audit opinion in FY 07.								
<i>Source Document</i>	DoD IG Report D-2002-009, Project No. D2000FJ-0067.006.								
<i>Progress to Date</i>	Major Milestones in Corrective Action: <p>A. Completed Milestones:</p> <table> <tr> <td><u>Date:</u> 1ST QTR, FY 03</td><td><u>Milestone:</u> Revised the corrective action plan consistent with the Deloitte & Touche Management Report on Business Systems Modernization (BSM) and Inventory Valuation.</td></tr> </table> <p>B. Planned Milestones for FY 05:</p> <table> <tr> <td><u>Date:</u> 2ND QTR, FY 05</td><td><u>Milestone:</u> Achieve a corrective action plan that satisfies the concerns of DLA's financial auditors and the DoD IG and Comptroller elements.</td></tr> </table> <p>C. Planned Milestones for Beyond FY 05:</p> <table> <tr> <td><u>Date:</u> 2ND QTR, FY 05</td><td><u>Milestone:</u> Initiate monthly transfers of inventory items following system stabilization of the full functionality version (2.2) of DLA's planned BSM system.</td></tr> <tr> <td>4TH QTR, FY 05</td><td>Complete monthly transfers of inventory items to BSM.</td></tr> </table>	<u>Date:</u> 1 ST QTR, FY 03	<u>Milestone:</u> Revised the corrective action plan consistent with the Deloitte & Touche Management Report on Business Systems Modernization (BSM) and Inventory Valuation.	<u>Date:</u> 2 ND QTR, FY 05	<u>Milestone:</u> Achieve a corrective action plan that satisfies the concerns of DLA's financial auditors and the DoD IG and Comptroller elements.	<u>Date:</u> 2 ND QTR, FY 05	<u>Milestone:</u> Initiate monthly transfers of inventory items following system stabilization of the full functionality version (2.2) of DLA's planned BSM system.	4 TH QTR, FY 05	Complete monthly transfers of inventory items to BSM.
<u>Date:</u> 1 ST QTR, FY 03	<u>Milestone:</u> Revised the corrective action plan consistent with the Deloitte & Touche Management Report on Business Systems Modernization (BSM) and Inventory Valuation.								
<u>Date:</u> 2 ND QTR, FY 05	<u>Milestone:</u> Achieve a corrective action plan that satisfies the concerns of DLA's financial auditors and the DoD IG and Comptroller elements.								
<u>Date:</u> 2 ND QTR, FY 05	<u>Milestone:</u> Initiate monthly transfers of inventory items following system stabilization of the full functionality version (2.2) of DLA's planned BSM system.								
4 TH QTR, FY 05	Complete monthly transfers of inventory items to BSM.								

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue	Navy and Defense Logistics Agency (DLA) Retail Inventory System Interfaces. A potential weakness was identified in the financial processes for implementing the National Level Inventory Initiative, and specifically, the transfer of Navy retail inventory to DLA. The risk to DLA is that the systems used by Military Services (MILSVC) are not compliant; the data cannot be properly interfaced with DLA systems; and the value of the material transferred is not properly assessed.
Functional Category	Comptroller and/or Resource Management
Component	DLA
Pace of Corrective Action	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 2000 • <u>Original Targeted Correction Date</u> - 4TH QTR, FY 01 • <u>Targeted Correction Date in Last Year's Report</u> - 2ND QTR, FY 06 • <u>Current Target Date</u> - 2ND QTR, FY 06
Reason for Change in Date (s)	A significant portion of this part of the weakness is largely contingent upon Business Systems Modernization (BSM) implementation. Target dates and milestones were established based on BSM deployment schedules. The target date has been changed from 2 ND QTR, FY 06 to 4 TH QTR, FY 06, due to the recent change in the BSM completion date.
Component/Appropriation/Account Number	97X4930 Defense Working Capital Fund. No funding is required specifically to resolve this weakness.
Validation Indicator	Validation will be accomplished through the testing of systems interfaces upon implementation of National Inventory Management Strategy (NIMS) pilots. Validation is being accomplished by the DLA Information Operations: Financial Policy, Systems and Control Group (J-85), Supply Operations, Program/Budget Group (J-83), Business Systems Modernization Group (J-88); and Logistics Operations (J-3).
Results Indicators	DLA assumed management of 2,600 national stock numbers of planeside support stock for a Navy customer at Naval Air Station Lemoore, as part of the National Level Inventory Management Initiative, during early implementation of NIMS-type arrangements. This strategy has been formalized under the NIMS, and pilot test sites are being identified for each MILSVC since that time. These pilot tests will use Service inventory management systems to manage (receive and issue) DLA-owned assets at Service locations. Procedures must be established to ensure that material transferred to DLA is

properly valued; inventory stored at Service facilities is under proper control; and the information passed to DLA systems is complete, accurate, and reliable. Operational business rules are being established for each NIMS pilot to address these issues, because the information technology solution is different for each Service, until the BSM Enterprise Resource Planning (ERP) has been fully deployed. These requirements are documented in each Memorandum of Agreement and will be incorporated, in detail, into the Business Case, Concept of Operations and Business Rules, for each Service NIMS pilot, to ensure that DLA maintains asset and financial transaction visibility. Successful completion of the proposed remedial effort will be defined as final approval of Business Rules for each Service; final completion and testing in BSM to ensure material transferred to DLA is properly valued; stored inventory at Service facilities is under proper control; and information passed to DLA systems is complete, accurate, and reliable.

***Source
Document***

Management Control Program Evaluation.

***Progress to
Date***

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Established working groups for each MILSVC NIMS pilot.
Completed	Established a Concept of Operations and Business Rules for each pilot which included extensive requirements for systems interface and support requirements.
Completed	Developed financial business rules with the Army.
Completed	Developed financial business rules for the Fleet and Industrial Supply Center in Jacksonville, FL and detachment rules in Ingleside, TX with the Navy. Secured the Navy agreement with business rules.
Completed	Developed financial business rules for the Oklahoma City Air Logistics Center with the Air Force. Secured the Air Force agreement with business rules.
Completed	Developed financial business rules within the Marine Corps.

B. Planned Milestones for 4TH QTR, FY 04 and FY 05:

<u>Date:</u>	<u>Milestone:</u>
4 TH QTR, FY 04	Obtain an agreement of financial business rules with the Army.
4 TH QTR, FY 04	Obtain an agreement of financial business rules with the Marine Corps.
4 TH QTR, FY 04	Expand the use of Navy financial business rules within Naval activities.
4 TH QTR, FY 04	Expand the use of Air Force financial business rules within Air Force activities.
4 TH QTR, FY 05	Expand the use of Navy financial business rules within Naval activities.
4 TH QTR, FY 05	Expand the use of Air Force financial business rules within Air Force activities.
4 TH QTR, FY 05	Expand the use of Army financial business rules within Army activities.
4 TH QTR, FY 05	Expand the use of Marine Corps financial business rules within Marine Corps activities.

C. Planned Milestones for Beyond FY 05:

<u>Date:</u>	<u>Milestone:</u>
4 TH QTR, FY 06	BSM will be fully developed and take over full inventory asset and financial management of DLA-owned inventories at MILSVC retail locations, where applicable. Verification of the following within BSM: material transferred to DLA is properly valued; inventory stored at Service facilities is under proper control; and information passed to DLA systems is complete, accurate, and reliable.

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue	<p>Automated Systems Used to Prepare the Defense Logistics Agency (DLA) Working Capital Fund Financial (DWCF) Statements, Report No. 00-027, October 1999. The Department of Defense (DoD) Inspector General (IG) concluded from their review: insufficient information was available to adequately describe the current system environment; and DLA did not adequately reflect the effect that the system and related control deficiencies had on DLA's ability to prepare reliable financial statements. Corrective action will be phased-in across DLA businesses. Two projects will replace mission-critical, integrated logistics, financial legacy systems with an Enterprise Resource Planning (ERP) solution compliant with the Federal Financial Management Improvement Act (FFMIA) for the Supply Nonenergy/Energy businesses. Additional initiatives are evaluating contemporary financial systems for FFMIA compliance and assessing the expansion of the initial projects into other business areas.</p> <p>The Business Systems Modernization (BSM) initiative is for the Supply Nonenergy business. Full implementation of BSM is planned for FY 06. The first release (1.0) occurred in July 2002. The second and third releases (1.1 and 1.2) occurred in various cutovers from December 2003 through June 2004. The next phases are planned as noted in the milestone section below.</p> <p>The Fuels Automated System (FAS) initiative is for Supply Energy business. Full implementation of FAS is planned for FY 07. The first release occurred in October 2002 for West Coast Bulk Petroleum, and was subsequently rolled out across the Continental United States (CONUS). The release for Post, Camps & Stations (PC&S) was approved for implementation in April 2004. Other phases are noted in the milestone section below.</p> <p>Other DLA businesses, such as the Defense Distribution Center, and Defense Reutilization and Marketing Service, will become part of a BSM-like initiative at a later date. The DLA Financial Operations, Comptroller (J-8) is working with DLA Information Operations (J-6) to develop the financial portion of the DLA enterprise architecture, which will address DLA's over-arching plan to modernize its business systems. J-8 will continue to address specific systems discrepancies as appropriate, until that time.</p>
Functional Category	Comptroller and/or Resource Management
Component	DLA

***Pace of
Corrective
Action***

- Year Identified - Fiscal Year (FY) 2000
- Original Targeted Correction Date - 4TH QTR, FY 03
- Targeted Correction Date in Last Year's Report - 4TH QTR, FY 07
- Current Target Date - 4TH QTR, FY 07

4TH QTR, FY 06 for Supply Nonenergy BSM (Standard Automated Materiel Management System, DISMS, Defense Business Management System).

4TH QTR, FY 07 for Supply Energy FAS Defense Fuel Automated Management System (DFAMS).

Completion date to be determined for other legacy systems and business activity groups.

***Reason for
Change in
Date (s)***

N/A.

***Component/
Appropriation/
Account
Number***

DWCF, 97X4930							
Title,							Total
<u>Appropriation(s)</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>		<u>FY 03-09</u>
BSM, 97X4930	\$220.2M	\$153.9M	\$186.6M	\$171.9M	\$76.5M		\$809.1M
FAS, 97X4930	\$45.0M	\$48.7M	\$41.6M	\$45.5M	\$33.4M		\$214.2M

***Validation
Indicator***

Validation will be accomplished through oversight committees, independent audits, and auditable financial statements.

***Results
Indicators***

Compliance with Public Law 104-208, FFMIA of 1996 and compliance with the Office of Management and Budget Circular A-127, Financial Management Systems.

***Source
Document***

DoD IG Report Number 00-027, October 28, 1999
Deloitte & Touche Assessment Report, for the year ended September 30, 2001.

***Progress to
Date***

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Completed

Milestone:

The BSM initiative concentrated on stabilization of financial issues related to its first three releases (i.e., Release 1.0: Concept Demonstration; Release 1.1: Battledress Uniforms and the Phased Transition of the Remainder of the Subsistence Items; and Release 1.2:

Tents, Accessories, Flags and Insignia Functionality from the Clothing and Textiles Commodity) and in the development of the follow-on phases of BSM.

Completed	Release 2.0, a broad expansion to include all basic material management functionality, and pilot tests for operational accounting for property accountability and payroll accounting, was released on July 31, 2004. Release 1.0 has been certified as FFMIA compliant. An independent audit firm is conducting an assessment for FFMIA compliancy for Release 2.0. In addition, an acceptance criterion is complete and testing is in progress.
Completed	The FAS initiative deployed Bulk Petroleum for CONUS and PC&S functionality. Both releases have been tested and certified as FFMIA compliant.

B. Planned Milestones for FY 05:

<u>Date:</u>	<u>Milestone:</u>
1 ST QTR, FY 05	The release of FAS Into-Plane Release, which expands FAS capability to the flight-line.
1 ST QTR, FY 05	The completion of BSM Release 2.1.1 related to Suffix/Status Code.
2 ND QTR, FY 05	BSM Release 2.1.2 related to Demand/Supplier Collaboration.
3 RD QTR, FY 05	FAS Bunkers Release.
3 RD QTR, FY 05	BSM Release 2.1.3 related to Stratification.

C. Planned Milestones for Beyond FY 05:

<u>Date:</u>	<u>Milestone:</u>
1 ST QTR, FY 06	BSM Release 2.2, to include a full roll out of operational accounting, including: payroll, travel, property accountability, Base Operations Support System (BOSS) procurement and IMPAC card interfaces, reimbursable and nonreimbursable internal orders, employee reimbursement, and other manual obligations.

2ND QTR, FY 06 FAS Outside of the Continental United States Release.

3RD QTR, FY 06 BSM Full Operational Capability.

1ST QTR, FY 07 FAS Full Operational Capability.

Uncorrected Weaknesses Identified During Prior Periods

Description of Issue **Internal Controls and Compliance with Laws and Regulations for the Defense Logistics Agency (DLA) Working Capital Fund Financial Statements.** The Department of Defense (DoD) Inspector General (IG) reported that there were internal control weaknesses in established DLA and Defense Fuel Automated Management System (DFAS) processes, controls, and systems used to prepare the DLA financial statements.

Functional Category Comptroller and/or Resource Management

Component DLA

Pace of Corrective Action

- Year Identified - Fiscal Year (FY) 2000
- Original Targeted Correction Date - 1ST QTR, FY 03
- Targeted Correction Date in Last Year's Report - 4TH QTR, FY 07
- Current Target Date - 4TH QTR, FY 07

Reason for Change in Date (s) N/A.

Component/Appropriation/Account Number Component/Appropriation/Account Number: DLA Defense Working Capital Fund (DWCF), 97X4930.

Title,							Cost to	
<u>Appropriation(s)</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>Complete</u>	<u>Total</u>
DWCF, 97X49	\$ 6.3M	\$7.0M	\$3.0M	\$7.0M	\$7.0M		\$14.0M	\$48.3

Component/Appropriation/Account Number: General Fund - Operation & Maintenance (O&M), Family Housing, Military Construction, Procurement Defense Wide (PDW), Research Development Technical and Evaluation (RDT&E).

Title,							Cost to	
<u>Appropriation(s)</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>Complete</u>	<u>Total</u>
O&M, 970100	N/A	N/A	N/A	TBD	TBD		TBD	

Component/Appropriation/Account Number: Defense National Stockpile Center.

Title,							Cost to	
<u>Appropriation(s)</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>Complete</u>	<u>Total</u>
DNSC, 97-47x4542	N/A	N/A	N/A	TBD	TBD		TBD	

Validation Indicator DFAS and DLA have ongoing actions to improve the accuracy and reliability of DLA financial management information. DLA implemented a business systems modernization effort to improve its automated systems, controls, and related business processes. As a validation process for these

actions, the DLA Audit Committee will direct the scope of our contract with a private sector CPA firm to independently audit the key business processes. J-89 has developed a DLA Financial Transformation Plan to outline the DLA compliance strategy; track the progress made to complete assessment and audits; track the progress against planned milestones; and report the progress back to the audit committee.

Results

Indicators

Adequate results will be demonstrated by an unqualified audit opinion. Progress towards improved financial data will be tracked quarterly as a Balanced Scorecard (BSC) performance metric.

Source

Document

General Accounting Office and DoD IG have conducted multiple reviews related to financial statement issues. The audit firm, Deloitte and Touche (D&T) performed audits from August 2000 to Dec 2003. Presently, Urbach Kahn and Werlin perform audits and auditability assessments.

Progress to Date

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	The DLA Chief Financial Officer's (CFO) One Book Chapter, titled Compliance Process, was approved and posted on the DLA Web site and then implemented.
Completed	The D&T FY 02 audit assessment reports for nine focuses were distributed.
Completed	DLA awarded a long-term blanket purchase (BPA), through January 2010, to an external audit firm in September 2003. The firm conducted auditability assessments throughout FY 04. Specific task orders will be awarded under the BPA.
Completed	D&T provided the results of the assessment for ten focus areas and DLA's overall financial stewardship.
Completed	DLA distributed the Financial Statement Compilation Process and Status of Prior Year Auditability Assessment report.
Completed	The DLA Financial Transformation Plan (FTP) was approved and published in January 2004. The DLA FTP is also posted on the DLA Web site.

Completed	Progress of the auditability assessments and POAM corrective actions, as reported in the FTP, was monitored quarterly, and the Audit Committee on a monthly basis through BSC quarterly reporting.
Completed	Updated the One Book Chapter to include the Office of the Secretary of Defense (OSD)(C) Financial Improvement Initiatives Business Rules issued in June 2004.
Completed	Updated the DLA FTP to reflect the latest guidance from DoD IG and OSD(C) on the assessment and management assertion process (e.g. Business Rules).
Completed	Updated the DLA FTP and BSC to reflect any POAMs developed to address the auditability impediments and/or deficiencies.

B. Planned Milestones for FY 05:

<u>Date:</u>	<u>Milestone:</u>
1 ST QTR, FY 05	Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC.
1 ST QTR, FY 05	Complete auditability assessments on all FY 04 financial states and specific line items for FY 04.
1 ST QTR, FY 05	CPA audit firm will issue a Management Report on auditability assessment.
2 ND QTR, FY 05	Require process owners (SES or Flag Officer) to develop POAMs for all reported auditability impediments and deficiencies.
2 ND QTR, FY 05	Develop new and specific task orders for auditability assessment.
2 ND QTR, FY 05	Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC.
2 ND QTR, FY 05	The DLA Financial Transformation plan will be updated to address outstanding problems identified in a CPA audit firm auditability assessment.

- 3RD QTR, FY 05 Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC.
- 4TH QTR, FY 05 Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC.

C. Planned Milestones for Beyond FY 05:

- | <u>Date:</u> | <u>Milestone:</u> |
|----------------------------|---|
| 1 ST QTR, FY 06 | Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC. |
| 1 ST QTR, FY 06 | Complete auditability assessments and targeted audits in accordance with the DLA FTP. |
| 1 ST QTR, FY 06 | A CPA audit firm will issue a Management Report on auditability assessment. |
| 2 ND QTR, FY 06 | Develop new and specific task orders for auditability assessment. |
| 2 ND QTR, FY 06 | Require process owners (SES or Flag Officer) to develop POAMs for all reported auditability impediments and deficiencies. |
| 2 ND QTR, FY 06 | Update the DLA FTP and BSC to reflect any POAMs developed to address the auditability impediments and/or deficiencies. |
| 2 ND QTR, FY 06 | DLA Financial Transformation plan will be updated to address outstanding problems identified in a CPA audit firm auditability assessment. |
| 3 RD QTR, FY 06 | Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC. |
| 4 TH QTR, FY 06 | Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC. |
| 1 ST QTR, FY 07 | Quarterly monitoring and reporting of auditability assessment and FTP POAMs corrective action to the Audit Committee and through BSC. |

Uncorrected Weaknesses Identified During Prior Periods

<i>Description of Issue</i>	Inaccurate Reporting of Plant, Property and Equipment (PP&E) Accounts on the Financial Statements of the Defense Logistics Agency (DLA) Business Activity Groups, of the Defense Working Capital Fund for FY 99 (D-2000-133). The Department of Defense (DoD) Inspector General (IG) found in their review of DLA's financial statements, significant unreconciled differences between the amounts of PP&E reported in its financial statements, the Defense Property Accountability System (DPAS), and the Defense Business Management System (DBMS). This finding supersedes the audit finding first reported in FY 93. Progress is being made in this ongoing audit finding. Subsequent audit findings will reflect the remaining outstanding issues.
<i>Functional Category</i>	Comptroller and/or Resource Management
<i>Component</i>	DLA
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> • <u>Year Identified</u> - Fiscal Year (FY) 1999 • <u>Original Targeted Correction Date</u> - FY 00 • <u>Targeted Correction Date in Last Year's Report</u> - 4TH QTR, FY 06 • <u>Current Target Date</u> - 4TH QTR, FY 06
<i>Reason for Change in Date (s)</i>	Property accountability will migrate from DPAS and be integrated into the accounting system, eliminating the need for reconciliation, as DLA implements the Business Systems Modernization (BSM) program. DLA, in coordination with the Defense Fuel Automated Management System (DFAS), will continue to manually reconcile DPAS to DBMS and to the financial statements, until an automated process is implemented.
<i>Component/Appropriation/Account Number</i>	Defense Working Capital Fund, 97X4930. PP&E is part of an ongoing business process. Therefore, PP&E is not a special funding item.
<i>Validation Indicator</i>	Validation is being accomplished by the DLA Comptroller Office and DLA Support Services. Validation is completed through review and oversight to ensure that the PP&E owning activities update DPAS and maintain and reconcile their records.
<i>Results Indicators</i>	DPAS property books reflect all accountable PP&E and are reconciled with the accounting records.
<i>Source Document</i>	DoD IG Report Number D-2000-133, May 20, 2000. Deloitte & Touche Assessment Report for FY 01.

***Progress to
Date*****Major Milestones in Corrective Action:****A. Completed Milestones:**

<u>Date:</u>	<u>Milestone:</u>
Completed	Identified records for DLA Headquarters elements for input to DPAS and for transfer to Field Activities.
Completed	Provided guidance through the DLA PP&E handbook.
Completed	Discontinued Integrated Facilities System interface procedures to DPAS for all DLA Field Activities.
Completed	Held a DLA-wide PP&E workshop in March 2004 for the Accountable Property Offices and Financial Services Offices.
Completed	Continued monthly reconciliation of DPAS to DBMS. The variance of \$303.7M as of September 30, 2001, was reduced to \$16.7M as of June 30, 2004.
Completed	Identified causative factors creating variances. There are two primary factors: 1) timing of the receipt of items in DBMS that have not also been posted in DPAS; (Subsequently, related variances are corrected once items are receipted and posted in DPAS); and 2) DBMS is not United States Standard General Ledger compliant and therefore incompatible with DPAS. DLA is currently implementing actions to correct the timing issue by requiring timelier posting of items into DPAS. DLA is also monitoring variances caused by incompatibility between DBMS and DPAS general ledger accounts.
Completed	Determined the availability of training covering the policies and procedures for the financial accounting of PP&E.
Completed	Held a DLA-wide PP&E Workshop in March 2004 for Accountable Property Offices and Financial Services Offices to discuss DPAS accountability and accounting issues.
Completed	Added a PP&E hot link to the Financial Operations (J-8) Web site to communicate policies and procedures for the financial accounting of PP&E in a clear and consistent manner.

- | | |
|-----------|---|
| Completed | Provided guidance on essential training for the financial accounting of PP&E. |
| Completed | Continued the reconciliation of PP&E data throughout FY 04 resulting in the reduction of the \$28 million variance on September 30, 2003, to \$16.7 million on June 30, 2004. |

B. Planned Milestones for FY 05:

- | | |
|--|--|
| <u>Date:</u>
4 TH QTR, FY 05 | <u>Milestone:</u>
Continue manually reconciling between financial statements, DBMS, and DPAS until variances have been eliminated due to systemic problems. |
|--|--|

C. Planned Milestones for Beyond FY 05:

- | | |
|--|--|
| <u>Date:</u>
1 ST QTR, FY 06 | <u>Milestone:</u>
Migrate property accountability from DPAS to BSM. |
|--|--|

TAB B-3

**NARRATIVES FOR ALL MATERIAL WEAKNESSES CORRECTED
DURING FISCAL YEAR 2003**

None.

TAB B-4

MANAGEMENT CONTROL (MC) PROGRAM AND RELATED ACCOMPLISHMENTS

Defense Logistics Agency (DLA) Defense Distribution Center (DDC)

Description of the Issue

- The Financial Liability Investigation of Property Loss (FLIPL) Program at the DDC and its depots was not being enforced.

Accomplishments

The Handbook developed for Financial Liability Officers (FLO) in Fiscal Year (FY) 2003 has been reviewed by the FLIPL Manager and is currently being utilized with no updates required. DLA Financial Operations (J-8) developed and distributed a handbook for use by the investigators, the FLOs. The handbook is in a comprehensive question and answer format, giving guidance and immediate answers to common questions.

A Standard Operating Procedure was developed by J-8 and is currently being used by Depot Personnel. Although the formal training module has been placed on hold, the FLO Handbook is currently being used as a FLIPL training tool.

Federal Financial Management Improvement Act (FFMIA)

Description of the Issue

- The DDC is conducting a FFMIA review of the Distribution Standard System (DSS) as a financial feeder system.

Accomplishments

A program manager is completing the assessment process and conducting analysis of the Defense Fuel Automated Management System (DFAS) Guide as it pertains to DSS. The program manager will follow through with documenting the assessment and analysis prior to testing the system compliance. The remaining steps will include design and implementation of any necessary system changes.

A Statement of Work for a contractor to support documenting the assessment and analysis has been written with emphasis on validating the checklist review, determining system deficiencies and developing a corrective action plan.

Description of the Issue

- The Net Landed Cost (NLC) goal is to provide proper pricing and visibility of charges in the form of a monthly Compact Disk (CD) to supply chain customers so they may make informed decisions on distribution matters.

Accomplishments

NLC storage implementation will continue the DDC goal to provide customers with greater visibility of their distribution costs in the form of a monthly CD.
Over Ocean Transportation is included for FY 04 and billing is based on requisitioner of items being transported Outside of the Continental United States. Data is gathered systemically via Transportation Command billing data, Power Track, and DSS.
Initiatives for FY 05 include First Destination Billing and providing the above information via the Web site instead of CDs.

Description of the Issue

- Web-based Invoicing Process Implemented: The Cost Evaluation and Analysis Team along with the Financial Automation Team are implementing a web-based contracting, invoicing process for the Revised Office of Management and Budget (OMB) Circular A-76 contracted depot sites.

Purpose(s)

The J-8 Financial Teams are currently working on developing a web-based invoicing program that fits the layout of the current contractor(s) invoicing process. This program will aid the contractor in applying a valid Job Order Number (JON) to the work counts provided on the invoice. This data will ensure that all reimbursable work performed has an identified DDC customer associated with the work/task completion count.

How will it work?

- The web-based program will allow the contractor to fill a web-based data field on monthly work accomplishments/taskings for their proper invoice generation.
- Individually designed invoices to match the JON with the proper work count and contract Line Item Number structure.
- All work counts will be entered by the contractor for invoice generation.
- Online monthly invoice certification by the Contracting Officer's Representative (COR).

Accomplishments

Research and discussions on Defense DFAS's current automation systems, Financial Management Regulations (FMR), Federal Acquisition Regulations (FAR), Contract types, and Contractor(s) invoice formats, process, and procedures ongoing as needed.
A draft of a Requirements Specification document for the Revised OMB Circular A-76, Invoice Automation Project is in development.

Next Milestone:

Draft template web page designs for invoicing are being developed by the Financial Automation Team.

Planned Release Date:

December 2004

Description of the Issue

- The Revised OMB Circular A-76 competition of the distribution services is underway, during FY 04.

Accomplishments

The Defense Distribution Depot Tobyhanna, PA (DDTP), final decision to Most Efficient Organization (MEO) was announced July 2004. The Defense Distribution Depot Puget Sound, WA (DDPW), final decision to MEO was announced June 2004. Competitions are currently underway at the Defense Distribution Depot Corpus Christi, TX (DDCT), and the Defense Distribution Depot Anniston, AL (DDAA).

Plans are to cancel competitions at Defense Distribution Depot Oklahoma City, OK (DDOO); Defense Distribution Depot Red River, TX (DDRT); and Defense Distribution Depot Norfolk, VA (DDNV); and re-announce them under the rules of the Revised OMB Circular A-76, published in May 2003. A revised schedule is in development.

Description of the Issue

- Stand up of Defense Distribution Depot Sigonella, Italy (DDSI).

Accomplishments

On March 30, 2004, DDC established its 23RD Distribution Center in Sigonella, Italy. DDSI provides forward stock positioning support and enhanced physical distribution services. It is co-located with Naval Air Station Sigonella and its primary customers are the local Aviation Support Division, the Aviation Intermediate Maintenance Division, and Navy ships and squadrons operating in the Mediterranean.

DDSI will specialize in managing the Navy's local hazardous material, storage, and distribution for depot level repairables, and expedited requisitioning and centralized receiving support to the local military community.

Description of the Issue

- "Pure Pallet" Program Instituted

Accomplishments

DDC has instituted a program of building “pure pallets” for air delivery to the Central Command Area of Responsibility. These pallets contain only material for one customer and are not mixed with any other customers’ requisitions. Prior to the “pure pallet” initiative, pallets would be built containing material for several units located at the same site. The pallets would first have to go to a break bulk point for separation.

The time it takes for deployed forces to receive their material has been reduced and the number of soldiers needed to process the goods when they arrive in the theater, have been reduced since the implementation of “pure pallets.”

Description of the Issue

- Emergency Essential (EE) positions were developed.

Accomplishments

DDC employees were recently given the opportunity to volunteer to have their positions designated as EE. By doing so, these employees can be called upon to deploy in support of U.S. troops anywhere in the world.

Deployments can last anywhere from 14 to 179 days. Select positions will be converted to EE designation as they become vacant and are advertised.

Description of the Issue

- The Distribution Planning and Management System (DPMS) is a web-based tool that allows vendors to seamlessly integrate their shipments into the Defense Travel System (DTS).

Accomplishments

Initially fielded during FY 03, this program has expanded greatly during the past twelve 12 months. DPMS is now being used by over eighty 80 of DDC’s largest suppliers. DPMS allows vendors to produce a Military Shipping Label at their location to ensure the item will be recognized and processed immediately on its arrival in the DTS.

DDC has recently obtained milestone C approval for the shipment optimizer tool in DPMS and is working to identify participating vendors. Future phases of DPMS development will include:

- The ability to merge vendor and depot shipments in one container to maximize load density and reduce transportation costs;
- The ability to optimize the delivery of returns and retrograde material within the DTS; and
- Integration of DPMS with other Services’ Enterprise Resource Planning (ERP) software systems.

Description of the Issue

- Defense Distribution Depot San Joaquin, CA (DDJC), was named top shipper in the Large Shipper category by the Surface Deployment and Distribution Command (SDDC) for the year 2003.

Accomplishments

<p>The award was based on volume, timeliness and accuracy in the shipment of over ocean seavans. DDJC accuracy was rated 99 percent in a review of 2,339 containers. The Defense Distribution Depot Susquehanna, PA (DDSP), also received awards from the SDDC for outstanding Transportation documentation in the Large Shipper and the Super Large Shipper categories.</p>
<p>DDSP also received the U.S. Government Logistics Partner of the Year award from BAX Global, one of the Command's primary domestic airfreight carriers.</p>

Description of the Issue

- DDC has announced the publication of its Long-Range Business Plan for the future.

Accomplishments

<p>It is the 3RD arm of the Command's Strategic Management System – along with DLA's Enterprise Strategic Plan, and the DDC's Balanced Scorecard. The plan provides for twenty-three (23) critical, strategic initiatives that will allow DDC to accomplish its vision of providing best-value competitive distribution services to America's warfighters around the world and around the clock. A few examples of these initiatives are:</p> <ul style="list-style-type: none"> - Improve Inventory Accuracy; - Competitive Sourcing; - Stand Up Forward Distribution Centers; - Total Cost Tracking; - Implement the Distribution Planning & Management System; and - Implement Enterprise Transportation.

Description of the Issue

- DDC assumes responsibility of all transportation management functions within the Agency.

Accomplishments

<p>In its capacity as DLA's Lead Center for Distribution, DDC has assumed responsibility for the consolidation of all transportation management functions within the Agency.</p>
<p>This program will provide centralized transportation management support for all shipments, both first and second destination, utilizing an enterprise-level transportation optimizer to ensure Time Definite Delivery and best value to the customer.</p>

J-9 Reserve Force

Description of the Issue

- Improvements in funds control and reduction of accrued unpaid expenditures continued during FY 04.

Accomplishments

Comparing calendar year 2003 with 2004, there has been a 78 percent reduction in accrued unpaid expenditures this year. Personnel have also improved accountability for receiving Military Interdepartmental Purchase Order acceptances more timely and closing the loop on accrued expenditures. A systematic evaluation of unused cellular phone minutes and overall cellular phone requirements was initiated which resulted in a reduction of monthly cellular phone costs.

J-3 Logistics Operations

Description of the Issue

- DLA recognized a need to identify and put into place the resources (financial, personnel and equipment) necessary to support Operation IRAQI FREEDOM and reset of forces for the long-term. "The New Normal" was a concerted effort to identify those resources and implement them.

Accomplishments

DLA developed a comprehensive Agency-wide plan to ensure that it meets the higher customer demands while staying on track with major transformation initiatives. The plan is based on demand planning estimates tied to information received from the Combatant Commanders and the Services. The plan has resulted in DLA maintaining acceptable levels of performance.

Description of the Issue

- With the success of the first releases of Business Systems Modernization (BSM), DLA will transition remaining data from the current legacy system, Standard Automated Materiel Management System (SAMMS) to BSM starting in January 2005. This transition necessitates an integrated approach to measuring enterprise performance that is not dependent on the system under which items are being managed. One set of key transition metrics representing combined legacy and BSM performance is needed to track performance of items transitioned to BSM on a continual basis and measure DLA performance at an enterprise level.

Accomplishments

A set of ten transition metrics has been identified that are a subset of the eventual BSM Key Performance Indicators and supporting metrics. These metrics will be tracked using the DLA Executive Information System (EIS) at a supply chain, customer, and weapon system level; and are scheduled to be available in October/November 2004. As a first step, legacy data was tracked and reported by supply chain beginning August 2004.

J-4 Customer Operations and Readiness

Description of the Issue

- Government Purchase Card Controls

Accomplishments

J-4 implemented an internal standard process for all purchases and requests for funds. All requests on a standard form, including those supported by government purchase cards, are reviewed and approved by the J-4 Strategic Support Office. This ensures all expenditures are in support of approved and funded programs; compliance with the statutory requirements and FARs; and adequacy of controls on the usage of the government purchase card. Applicable regulations and procedures for approval of requests were provided to all J-4, Customer Support Office and DLA Logistics Operation Center (DLOC) employees.

DLA Legislative Affairs (DL)

Description of the Issue

- Facilitating communication with DLA Headquarters (HQ DLA) and Field Activities.

Accomplishments

DL set up an e-mail address that enables HQ DLA and Field Activities to submit Congressional responses for DL coordination and to request DL approval of extension on DL suspense.

Description of the Issue

- Inconsistency in responding to written Congressional inquiries.

Accomplishments

During FY 04, DL identified a need for consistency in how the HQ DLA and Field Activities respond to congressional inquiries. To facilitate Agency consistency, DL initiated a process change that requires all HQ DLA and Field activities coordinate responses with DL prior to responding to the inquiry.

Description of the Issue

- Answering Congressional inquiries in a timely manner.

Accomplishments

DL implemented a process change that requires HQ DLA and Field Activities to formally request and justify a request for an extension on a DL suspended inquiry.

Description of the Issue

- Requirement for Record of Verbal Congressional Inquiries.

Accomplishments

DL identified a need for an internal record of verbal Congressionals received and developed an internal verbal inquiries spreadsheet that is updated weekly. This spreadsheet is also provided weekly to the DLA Vice Director and provides visibility of Congressional concerns that are verbally addressed to the Agency.

DLA Public Affairs (DP)

Description of the Issue

- Improve communication with HQ DLA, Field Activities, and DLA customers.

Accomplishments

Published communication tips in DLA Today and Tomorrow, an Intranet service available to DLA e-mail customers and in DLA Dimensions News and Views, a bimonthly newsletter distributed electronically to DLA supervisors and employees. The DLA Climate Survey indicated that employees felt issues and decisions that affected them were not being communicated to them by their supervisors. DP has helped to improve communication within DLA by publishing tips.

Surveyed audiences of two DLA communications: the Intranet site, DLA Today and Tomorrow, and newsletter, DLA Dimensions and News and Views. Surveys were conducted to DLA employees to determine if they liked/disliked articles DP published and what they would like to read. The results of the surveys were implemented in a new design for the Web site and

additional sections added to the publications.

Built DLA liaison officer relationships. DP developed relationships with internal Directorates and Customer Service Representatives who provide DP with story ideas, articles and photographs of events, people and initiatives. These articles are used in all of DP's publications, the Web site and have been successfully marketed to external publications, increasing the awareness of DLA and how the Agency supports the war fighter.

Defense Supply Center Richmond (DSCR)

Description of the Issue

- The Base Support Office is in the process of going to an online system to approve Purchase Card Program cardholder transactions and statements, and to approve billing official statements. The sampling method is to move all cardholders and billing officials by organization as the organization transfers to the online system, Customer Automation and Reporting Environment (CARE). Currently, there are 40 out of 63 billing officials and cardholders utilizing the online CARE system to approve transactions and cardholder statements, as well as certify billing official statements.

Accomplishments

As of the August 30, 2004, cycle, 19 billing officials and cardholders were added to the system. Only four billing officials remain on the manual method. These four use the stock fund system which is not compatible with CARE. Therefore, they can not be transferred and will have to continue to use paper statements in the foreseeable future.

Description of the Issue

- The importance project engineers/managers play in guarding the integrity of the Real Property Inventory (RPI) was emphasized in FY 04.

Accomplishments

The organization continually monitors construction projects and established procedures to ensure DD Forms 1354 are prepared and submitted to the Real Property clerk in a timely and accurate manner. This process also includes in-house projects of \$100K and under. The Facilities Engineering Operations office continues to improve DD Forms 1354 RPI data input of in-house projects. The increased awareness and weekly production control meeting provided the engineers and managers with a ready response to these challenges.

Description of the Issue

- The Internal Review Office sampled 79 contracts comparing socioeconomic data reported in the Defense Contract Awards Reporting System (DCARS) to contractor representations in their offers and central contractor registration. They found that errors were occurring in

socioeconomic categories of Small Disadvantage Business, Woman-owned Small Business, Hub Zone Small Business, and Service Disabled Veteran-owned Small Business. Contract actions over \$25K reported in DCARS through May 2004 totaled 11,546.

Accomplishments

Due to the large volume of data to be reviewed, two automated programs were developed to validate DCARS data. The first program matches contracts greater than \$25K awarded in SAMMS to contracts reported in DCARS and generates a missing Form DD 350 report. A similar program to identify unreported Base Operations Support System (BOSS) contracts is under development to be completed by 4th QTR, FY 04. The second program matches socioeconomic data reported in DCARS to socioeconomic data representations in the Central Contractor Registration database.

Defense National Stockpile Center (DNSC)

Description of the Issue

- DNSC has established an Environmental, Safety and Occupational Health Management System.

Accomplishments

The new system conforms to the International Organization for Standardization (ISO), 14001 standards and the OHSAS 18001. DNSC will be the first DLA activity to have a system in place and is among the first in the Department of Defense (DoD). This system is expected to improve operational efficiencies and proactively manage the environmental, safety and occupational health program. Certification of the program was issued by the U.S. Army Center for Health Promotion and Preventative Medicine in October of 2003.

Description of the Issue

- Defense National Stockpile Center, Directorate of Stockpile Contracts (DNSC-C): As part of our Risk Assessment and Internal Management Control Review at the Directorate of Stockpile Contracts, the following was accomplished as a result of (a) random quarterly reviews of sales and acquisitions files and (b) regulatory changes:

Accomplishments

- | |
|--|
| <ul style="list-style-type: none"> • Acquisition Activities: |
| <ul style="list-style-type: none"> - Provided Defense Acquisition University training on Statement of Work/Independent Government Estimate preparation for the entire contracting staff and all DNSC program officials. |
| <ul style="list-style-type: none"> - Detailed senior contracting specialist into Procurement Analyst position for acquisitions to establish local contracting policies and procedures. |

- Conducted internal reviews of contracts and identified problem areas where additional guidance/training would enhance contract specialists' performance.
- Issued several Contracting Instructions to implement acquisition policy changes and provide local guidance.
- Established a working relationship with Cooperative Administrative Support Units to provide service support to depots (i.e. forklift operators, material handlers, administrative assistants, etc.).
- Reviewed Contracting Officer's Representative (COR) files for the BOSS contracts to ensure that the files are thorough and complete.
- Migrated complex multi-year requirements contracts into Standard Procurement System (SPS).
- Provided ongoing in-house and formal SPS course training.
- Provided in-house training on the small business program.
- Provided training on the proper coding and use of Forms DD 350 and 1057.
- Exceeded small business program goals and received an "A" for all identified objectives.
- Coordinated efforts with DNSC-R to place the purchase card refresher training online for use by the DNSC cardholders/billing officials.
- Issued the Supply Bulletin to all Federal contracting offices to ensure compliance with the intent of FAR Part 8.
- Established a port on the DNSC web page for acquisition information; this site will serve as public notice for any competitive acquisition offerings.
• Sales Activities:
- Revised Section D, Payment, of all solicitations to incorporate the FMR provisions.
- Developed new language on pricing/delivery terms for the long-term tin solicitation. These changes will reduce the Government's overall risk.
- Streamlined the sales program for iodine by utilizing the Basic Ordering Agreement (BOA) to maximize revenues by capturing real time market opportunities.
- Conducted an Industry Meeting on Iodine to educate customer base on the use of and migration to the BOA.
- Developed and launched the Strategic Supply Alliance (SSA) sales format for vegetable tannin extract.
- Implemented online interactive quoting for all BOAs and the SSA.
- Implemented interactive shipping instructions.
- Conducted an Industry Meeting on Base Metals to discuss the merits of utilizing the SSA sales format in addition to the BOA and negotiated long-term formats.
- Issued negotiated format solicitation for low carbon ferrochrome, enabling customers to designate destination of the material, domestic consumption versus export.
- Enhanced financial responsibility review of all sales contractors to ensure that these firms possess adequate liquidity to satisfactorily pay for and lift the materials.
- Developed a presentation portfolio for use when meeting with potential customers.
- Expanded outreach opportunities to attempt to capture a broader customer base for all commodities.
- Standardized the format and language for the cure notices.

Defense National Stockpile Center, Office of Resource Management (DNSC-R)

Description of the Issue

- DNSC-R initiated the creation of a tracking database, during FY 04, so that controls can be maintained in tracking invoices and statements of vendor overdue accounts that require a DD Form 1131 to be transmitted to the Defense National Stockpile Center, Directorate of Stockpile Contracts. This tracking allows monitoring and status reporting of customer payments.

Accomplishments

Initiated the creation of a tracking database to maintain controls in tracking invoices.
--

Defense Automatic Addressing System Center (DAASC)

Description of the Issue

- The DAASC provided data in support of two General Accountability Office (GAO) audits.

Accomplishments

The Logistics Operations, Disposition Management Division (J-372) requested data from the DAASC to support two GAO audits related to the economy and efficiency of the DoD excess property program. DAASC provided them with mailing, shipping, and billing addresses for the DoD Activity Address Codes (DoDAAC) for National Guard units, Civil Air Patrol (CAP) activities, Reserve Officer Training Corps units, and other activities. This saved GAO a considerable amount of time that would have been spent manually searching for this information.

Description of the Issue

- The DAASC provided support to the National Geospatial-Intelligence Agency (NGA).

Accomplishments

The DAASC was requested by a representative of the NGA to assist them in finding all “H” series DoDAAC mailing and shipping address lines.
--

DAASC was able to do a mass change for all of the “H” series DoDAAC mailing and shipping address lines. Type Address Code (TAC)3 changes were completed for 346 DoDAACs TACs; TAC1 and TAC2 mailing and shipping address lines were generated; the National Imagery and Mapping Agency was changed to NGA. This saved the NGA a considerable amount of time researching the names of appropriate DoDAACs.

Financial Operations (J-8)

Description of the Issue

- **Ensure the Integrity of the Purchase Card Program.** DLA is among the largest of DoD's independent agencies in terms of its travel card base. Since inception of the travel card program DLA has struggled with high delinquency rates and charge-offs. The challenges included: lack of emphasis on the card program, training needs for Agency/Organization Program Coordinators (A/OPC), and a weak hierarchy structure.

Accomplishments

J-8 improved and reorganized the card program hierarchy, allowing program coordinators better manageability by improving the A/OPC's span of control. A/OPCs also attended workshops held on delinquency management which emphasized the importance and effectiveness of internal controls and proper oversight. Additionally, modifications and revisions were implemented to DLA procedures. J-8 has noticed drastic improvements in their program metrics and is currently experiencing a delinquency rate of zero.

Description of the Issue

- The emphasis on interest payments to contractors reduction has been increased due to an Office of the Under Secretary of Defense (OUSD)(C) memorandum directing the DoD services and agencies to reduce interest penalties by 20 percent interest paid per million disbursed from FY 03 levels.

Accomplishments

Based on the OUSD(C) memorandum, a joint DLA DFAS Integrated Process Team (IPT) was established, of which J-8 is the co-chair. The team was established to identify and institute systemic and procedural improvements that will lead to gains on the interest reduction goals. The IPT generated an action plan to assist in the reduction of interest penalty payments. Actions accomplished include end-to-end process reviews and substantial business practice changes to improve the contract payment process and reduce interest. These actions are closely monitored and have resulted in data trends showing significant improvement in meeting the baselines established by OUSD(C). The greatest indicator of the downward slope of interest payments is the negative correlation between interest rates and disbursements.

Description of the Issue

- DoD has directed that service components and defense agencies have the capability to produce unqualified financial statements by the year 2007. The DLA Chief Financial Officer's (CFO) Team contracted with an independent audit agency to assess Supply Management consolidated financial statements in FY 00; combined and consolidated agency

financial statements in FY 01; and ten DLA identified focus areas in FY 02, in an effort to comply with the DoD requirement.

Accomplishments

Deficiencies identified in each report have been identified to the correcting codes/activities within DLA. Plans of actions and milestones have been developed and tracked by the internal review staff. Twenty-three of the FY 00 deficiencies have been corrected, increasing DLA's auditability of the Supply Management Balance Sheet; 92 of the FY 01 deficiencies have been corrected, increasing DLA's auditability of the Consolidated Financial Statement; and 52 of the FY 02 identified focus area deficiencies are currently being worked.